SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MAY 13, 1946

TUESDAY, MAY 14, 1946

WITNESSES

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;
Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;
Mr. T. H. Cooper, Vice-President and Comptroller, C.N.R.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

ORDERS OF REFERENCE

House of Commons

Friday, 12th April, 1946.

Resolved,—That a sessional committee on Railways and Shipping owned, operated and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said committee be empowered to send for persons, papers and records and to report from time to time, and that, notwithstanding Standing Order 63, the said committee consist of Messrs. Chevrier, Clark, Coyle, Belzile, Bourget, Emmerson, Gibson *(Comox-Alberni)*, Harkness, Harris *(Grey-Bruce)*, McLure, Hazen, Jackman, LaCroix, Lockhart, Maybank, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid and Shaw.

Monday, 15th April, 1946.

Ordered,—That the Annual Reports for 1945 of the Canadian National Railways, the Canadian National Railways Securities Trust and the Auditors of the Canadian National Railway System, tabled this day, and the Annual Report for 1945 of Trans-Canada Air Lines which was laid on the Table of the House on April 11, 1946, be referred to the said Committee, together with the following items of estimates for 1946-47:—

Vote 422, Maritime Freight Rates Act—
Canadian National Railways;

Vote 423, Maritime Freight Rates Act—
Railways other than Canadian National;

Vote 469, Prince Edward Island Car Ferry and Terminals—
Deficit 1946;

And that the resolution passed by the House on March 28, 1946, referring certain estimates to the Committee of Supply, be rescinded in so far as the said resolution relates to Votes Nos. 422, 423, and 469.

Tuesday, 16th April, 1946.

Ordered,—That the Annual Report for 1945 of the Canadian (West Indies) Steamships Limited, tabled this day, be referred to the said Committee.

Wednesday, 8th May, 1946.

Ordered,—That the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the calendar year 1946, tabled this day, be referred to the said Committee.

MONDAY, 13th May, 1946.

Ordered,—That the said Committee be authorized to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be given leave to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from 12 to 8 members.

WEDNESDAY, 15th May, 1946.

Ordered,—That the name of Mr. Kuhl be substituted for that of Mr. Shaw on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, 13th May, 1946.

The sessional committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be authorized to print from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That is be given leave to sit while the House is sitting;

3. That its quorum be reduced from 12 to 8 members.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

Concurred in, 13th May, 1946.

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

MONDAY, 13th May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock, a.m., for organization.

Members present: Messrs. Chevrier, Coyle, Belzile, Gibson (Comox-Alberni), Harkness, LaCroix, McCulloch (Pictou), Moore, Mutch, Nicholson, Reid, Shaw.—12.

The members proceeded to elect a Chairman.

On motion of Mr. McCulloch (Pictou), it was unanimously agreed that Mr. S. M. Clark be Chairman of this Committee.

The Committee was advised that a telephone message had just been received that Mr. Clark, owing to serious illness in his family, was prevented from attending this meeting.

On motion of Mr. Reid, it was unanimously agreed that Mr. McCulloch (Pictou) would act as Chairman of the meeting.

Mr. McCulloch took the Chair, explained the purpose of the Meeting.

On motion of Mr. Nicholson, it was

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of the minutes of proceedings and evidence taken before the Committee, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Belzile, it was

Resolved,—That the Committee ask leave to sit while the House is sitting.

On motion of Mr. LaCroix, it was

Resolved,—That the House be asked to reduce the quorum of the Committee from 12 to 8 members.

It was agreed that the Acting Chairman would report to the House accordingly and ask concurrence therein.

The Committee then discussed the agenda for future meetings. Honourable Lionel Chevrier, Minister of Transport and a member of the Committee, suggested that the order of business followed in previous years might be adopted, i.e., that the Committee would first consider the 1945 Report of the Canadian National Railways System and other Companies related thereto, then the 1945 Report of the Auditors and finally the 1945 Report of Trans-Canada Air Lines. The Minister advised that he had consulted with the Minister for Reconstruction and Supply (Hon. C. D. Howe) and that he concurred in this arrangement. The Committee agreed to this procedure and were informed that the Directors and Officials of the Canadian National Railway System were ready to proceed immediately.

On motion of Mr. LaCroix, the Committee adjourned at 11.25 o'clock, to meet again at 11 o'clock a.m., to-morrow, Tuesday, 14th May, 1946.

Room 497,

House of Commons,

Tuesday, 14th May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m. Mr. McCulloch (*Pictou*) presided.

Members present: Messrs. Chevrier, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, LaCroix, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot, Reid—14.

In attendance: (Representing Canadian National Railways): Mr. R. C. Vaughan, Chairman and President; Mr. N. B. Walton, C.B.E., Executive Vice-President; Mr. T. H. Cooper, Vice-President and Comptroller; Mr. N. J. Macmillan, General Counsel; Mr. W. S. Thompson, Director of Public Relations and Mr. S. H. May, General Auditor; (Representing G. A. Touche & Company, Government Auditors for C.N.R.): Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, Deputy Minister and Mr. F. M. Maclennan, Assistant Deputy Minister and Comptroller.

Mr. Vaughan read a statement to the Committee and was questioned thereon.

Consideration was begun of the 1945 Report of the operations of the Canadian National Railways. Messrs. Vaughan, Walton and Cooper were questioned thereon.

Mr. Vaughan next read a statement with respect to the fixed charges of the Canadian National Railway System. Questions concerning this statement were answered by Messrs. Vaughan and Cooper.

The Minister of Transport (Hon. L. Chevrier) replied to questions with regard to steps under consideration by the Government with regard to certain regulatory control of competition between railway and highway services.

On motion of Mr. Mutch, the Committee adjourned at 1.00 o'clock, p.m., to meet again this day at 4.00 o'clock p.m.

The Committee resumed at 4.00 o'clock p.m. Mr. McCulloch (*Pictou*) was in the Chair.

Members present: Messrs. Chevrier, Gibson (*Comox-Alberni*), Harkness, Jackman, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot—10.

In attendance: The same officials as are named above.

Messrs. Vaughan, Walton and Cooper were questioned with regard to the 1945 Report of the operations of Canadian National Railways and the post-war projects and plans for the improvement of the Company's service to the public.

The Minister of Transport informed the Committee that in the interim he had inquired from the legal officers of the Department and had been advised that in 1937 the Department of Justice had given a ruling that the Dominion Government had power to legislate with regard to both international and interprovincial highway traffic, but that some Provinces had challenged this ruling and that, as a consequence, the Department had withdrawn the control section of contemplated legislation with regard to such traffic.

As the Committee was not unanimously agreed to sit at 8.00 o'clock this evening, it was decided that the Committee adjourn to meet again at 11.00 o'clock, a.m., on Wednesday, 15th May, 1946.

T. L. McEVOY,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

May 14, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'clock a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The Acting Chairman: Gentlemen, the first matter before us today is the report on the Canadian National Railways. I shall ask Mr. R. C. Vaughan, President of the Canadian National Railways to make his statement.

Mr. Vaughan: Our reports for the year 1945 have been distributed, and in accordance with what has become a well established practice, we are here before the committee to supplement the reports to whatever extent and in as much detail as the members of the committee may desire. This meeting is analogous to an annual general meeting of shareholders, except that the shareholders or their proxies in privately owned enterprises are not furnished with such full information or are given the same latitude to question the management as the members of this committee possess. We are very glad to give all the information that is required. This is as it should be. Through the committee, parliament and the people of Canada may secure all the information they require on the affairs of these state owned enterprises, the Canadian National Railway System, the Canadian National (West Indies) Steamships and Trans-Canada Air Lines.

It is very gratifying to be able to present such another excellent report for Canadian National Railways. We had a net income surplus for the year of $24,756,130 or $1,729,206 better than in the preceding year. In general the results of operation in both years were very similar. Gross revenues were only 1·7 per cent below 1944, operating expenses were two per cent less. Net revenue, which means the amount of revenue left after paying all operating expenses, was $78,479,000 in 1945 compared with $78,600,000 in 1944. Net income available for interest was $71,084,000 in 1945 and $71,096,000 in 1944. It is a curious coincidence that when all the multitudinous waybills, tickets, payrolls, vouchers, etc., necessary for the business of moving 80 million tons of revenue freight and 30 million passengers with all our ancillary services—express, telegraphs, sleeping and dining cars, mail, hotels and subsidiary company operations—have been accounted for and drawn down to a final total the net income before interest differs by only $12,000 from the corresponding figure for the previous year. Net income before interest at $71,084,000 shows that we earned approximately 3½ per cent on our total capitalization of $2,024,708,137, a most satisfactory achievement and one I must add made possible only by the abnormally high revenues which we enjoyed, and the untiring efforts of the officers and staff.

We take a little satisfaction from the accuracy with which we forecasted the results last year. The budget for 1945 which we submitted to the committee estimated the gross operating revenues at $433 millions. The actual revenues were $433,773,000 or within one-fifth of one per cent of the estimate. Operating expenses varied from the estimate by about one-seventh of one per cent and the surplus for the year by less than one per cent. We would like to think our aim for 1946 will hit the target so accurately.

The war is over. The movement of men and munitions to the fighting fronts is finished. The repatriation of the troops and their dependents is proceeding apace, being retarded only by the shortage of shipping. Reconversion from wartime to normal conditions is the order of the day. There is no need to go

over our war record, it speaks for itself, but let me say that if ever there were doubts as to the capacity of the railway or of its efficiency, or of its being a national necessity at all times, such doubts must have been completely dispelled by the record of the past six years.

Now we face new problems. The shortage of labour is behind us. The supply of repair material still remains difficult and in some cases critical. We have some arrears of maintenance to catch up. The supply of coal is a matter for anxiety. Traffic receipts are falling off, operating costs are increasing, and our big problem is how to meet our heavy fixed charges. The change over from war to peace affects production in all sections of the country which is immediately reflected in our traffic receipts. It is difficult to estimate how far the reduction in revenues will go, how much of it is temporary and how much will be recovered. Our 1946 budget forecasts a decrease in earnings of $48,700,000 or 11 per cent. For the first four months of the year the decrease has been nine per cent. Our difficulty is that we cannot pull expenses down as much or as quickly as the drop in revenues. There are many reasons why this is so. Some expense varies with traffic volume, other expense does not. General administration expense, depreciation, pensions, snow removal, etc., for example are controlled by factors other than the immediate traffic movement. We consider 33 per cent of the expense for maintenance of way and structures varies with traffic, 58 per cent of maintenance of equipment and 85 per cent of transportation expense. Then of course we are not compensated at the same rate for an equal amount of effort. Commodity rates vary. Manufactured products earn a higher rate per ton mile than do the products of agriculture, mines and forests. Last year we were moving large quantities of material related to the war effort. This traffic has been replaced by less remunerative traffic. In the first quarter of this year we had an increase in car loadings and we operated more freight trains but our revenue per ton mile decreased from ·947 cents to ·902 cents and our freight revenues decreased by $6,474,000. Likewise in the passenger service, we ran more passenger train miles but had a decrease in passenger revenue of $1,673,000. We are therefore doing more work for less money.

But we are much more concerned about the constantly increasing costs of operation. There seems to be no end to the increases in wage rates and material prices. The report on last year's operations points out that operating expenses in 1945 were increased by $69,391,000 due to higher wage rates and higher prices for materials as compared with the pre-war price level. Since the war began our employees received the cost of living bonus of $19.93 per month, and a general wage increase of 6 cents per hour of $12.48 per month. These two together gave an employee an increase of $389 per annum on a straight time basis (our employees in Canada last year totalled 95,393). In turn overtime rates of pay had to be increased proportionately. Vacations with pay, changes in working conditions, and other wage adjustments have added to the payroll expense. The average hourly rate of pay increased from 66 cents in 1939 to 84 cents in 1945, an increase of 26·6 per cent, representing an increased charge to operating expenses of $43,041,036. Increases authorized by the National War Labour Board during 1945 are estimated to cost $1,232,647 a year. Other increases authorized in 1946 will cost $430,000 a year and further applications have been received which if granted would add considerably over $30 millions to our payrolls.

Material prices have increased substantially during the war and are still increasing. For example, treated ties which cost us $1.33 in 1939 cost $1.79 in 1945; untreated ties which previously cost 60 cents now cost $1.15; new rail has gone up from $48.98 to $57.70 per ton; locomotive coal from $4.11 to $6.14, an increase of $2.03 per ton. When you realize we consumed last year 6,725,320 tons you see why an increase of $2.03 per ton puts our fuel costs up by $13,645,000. The price of steel and steel products excluding rail increased by

12 per cent, lumber excluding ties by 47 per cent and other general material by 20 per cent. All in all we estimate our costs in 1945 were increased by $26,352,000 over what they would have been had the 1939 price ceilings been observed for material used in railway maintenance and operation. Prices for materials in 1946 it is estimated will be higher than in 1945 by several millions of which $2,000,000 is attributed to higher prices for fuel.

And so it goes. We are in the toughest kind of a squeeze play. Our selling prices are frozen but our production costs are mounting in ominous fashion. Even a continuation of traffic volume at wartime levels would not suffice to enable the railway to shoulder additional burdens, of the magnitude I have outlined, without relief of some sort. Traffic volume is now falling. In the month of April our receipts were down $4,341,000 or 12 per cent. Our May budget forecasts a decrease for that month of $7,171,000 or 19 per cent. It looks as if in the first five months of the year our traffic receipts will be $20 millions below those of the previous year.

The burden of fixed charges also is a matter of grave concern to all of us. It has always been a matter of concern but it becomes more so as we face declining revenues and increasing costs. Our fixed charges in 1945 were $49,009,000 of which $26,021,000 was for interest on funded debt held by the public and $20,306,000 was for interest paid to the government. They absorbed 11·3 per cent of our gross revenues, a ratio nearly twice that of the Canadian Pacific or the class one roads of the United States. As our revenues fall off the percentage relationship will increase, of course. No other comparable railway shoulders such a burden.

I am sorry that these remarks are in such sharp contrast to the report for 1945 which we are about to examine but I do not wish to leave any misconception as to the basic situation which exists and which is emerging as business recedes from its wartime intensity.

The Acting CHAIRMAN: Thank you, Mr. Vaughan. I think you, as president of the Canadian National Railways, and your officers deserve a great deal of credit for the showing you have made in this report.

Mr. VAUGHAN: Thank you. Shall I proceed with the reading of the annual report?

The Acting CHAIRMAN: Yes, please.

Mr. VAUGHAN: In conformity with *The Canadian National-Canadian Pacific Act, 1936,* the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1945.

The downfall of Germany and Japan relieved the nations of the terrible afflictions of world-wide war, but it did not end their problems. The period we have now entered brings great uncertainty and imposes new and highly complex responsibilities, and Canada, which acquitted itself with honour in the war, is called upon to share these obligations.

In the Dominion's contribution to the work of building the new world which must arise out of the ruins of the old, the Canadian National System will play a valuable part, as it did in the war. Its co-operation, direct and effective, will be available in all the activities leading to a bigger and better Canada, whether it be in the fields of increased industrial and agricultural development or greater exploitation of the country's mineral and other resources. All departments of the railway are giving these matters close attention.

Post-war projects were studied during the past year and plans were advanced for the improvement of the Company's service to the public, particularly in regard to accelerated schedules and the provision of equipment designed for more economical operation and greater convenience and comfort for passengers.

Competition between railway and highway services presents a problem of growing importance. It is desirable that this competition should be on a fair basis, having due regard to public convenience and necessity. To accomplish this, common regulatory control would seem to be necessary.

Further evidence of the System's ability to meet the heavy demands made upon it as a public service is to be found in the 1945 traffic figures. They also reflect the change in pace and direction as the world moves out of wartime emergency into reconstruction. Traffic volume continued at a high level during the first nine months of the year, then the trend was gradually downward. Revenue freight for 1945 amounted to 79,941,296 tons and 30,370,680 passengers were carried.

Resulting from 1945 operations, a surplus of $24,756,130 has been turned over to the federal treasury, after the payment of interest due the public and the government. This was an increase of $1,729,206 over the surplus for 1944.

The following is a summary of the operating results. The full income statement appears on the opposite page.

	1945	1944
Operating Revenues	$433,773,393 56	$441,147,510 35
Operating Expenses	355,294,048 48	362,547,043 53
Net Operating Revenue	$ 78,479,345 08	$ 78,600,466 82
Taxes, Equipment and Joint Facility Rents	10,601,406 83	10,875,822 81
Net Railway Operating Income	$ 67,877,938 25	$ 67,724,644 01
Other Income, less deductions—*Credit*	*3,206,334 49*	*3,371,920 27*
Interest on Funded Debt—Public	$ 26,021,784 56	$ 28,135,938 36
Interest on Government Loans	20,306,358.18	19,933,701 57
Surplus	$ 24,756,130 00	$ 23,026,924 35

While shortages of labour and materials continued to restrict certain classes of work, the property was maintained to meet the heavy demands of traffic. Every effort has been made to maintain a high level of operating performance. Freight train loading and speeds, and the utilization of equipment, have been well maintained.

The repatriation of Canada's armed forces added to the strain on the Company's facilities and equipment. A large number of special trains was required to meet the ships at Halifax, New York, Quebec and Vancouver to transport returning service personnel to all parts of the Dominion. Arrangements made in anticipation of this heavy and concentrated movement enabled the railway to handle the trains with dispatch. To fill the repatriation needs, it was found necessary to withdraw many sleeping and dining cars from regular passenger service, but the public accepted the inconvenience with wholehearted understanding, and the Directors gratefully acknowleged their co-operation.

By the end of the year 7,015 Canadian National men and women had been released from the armed forces and welcomed back by the management and their fellow employees. The re-establishment program is proceeding smoothly under the supervision of the headquarters committee referred to in last year's report. Regional sub-committees of the Rehabilitation Committee organized fifteen years ago to re-establish employees injured while on railway duty have been set up throughout the System to expedite the re-employment of men suffering physical disabilities as a result of war service. In engaging new personnel, it is the Company's policy to give preference to those who have had war service.

Results of Operations

Operating Revenues. Traffic continued at a very high level. There were changes in its nature and direction but not to any great extent in its volume. Gross revenues amounted to $433,773,000 and were $7,374,000 or 1·7 per cent

below those of 1944. To the end of September the average daily earnings were slightly higher than those of the previous year; in the last quarter of the year, however, the decrease was 5·8 per cent. For the entire year freight revenues decreased 1·6 per cent, passenger revenues decreased 6·6 per cent, express revenues increased 6·7 per cent and other revenues increased 3·3 per cent. The tonnages of freight traffic by commodities are given on pages 32 and 33 of this report. Due to the war such statistics have been withheld from publication since 1941. Figures for the past four years are included in this report as a matter of record.

Operating Expenses amounted to $355,294,000 and were $7,253,000 or two per cent less than in 1944. The 1944 accounts included $5,428,000 for 1943 backtime payrolls; there was no similar charge in 1945. The provision made for deferred maintenance was $5 millions in 1945 compared with $10 millions in 1944. Equipment depreciation charges amounted to $16,974,000 compared with $19,853,000 in 1944, the reduction resulting from the adoption in 1945 of a depreciation rate of $3\frac{1}{3}$ per cent which is the average of the rates used by United States Class I railroads. The reductions referred to were partly offset by increased maintenance and by some increase in the cost of moving traffic. Pension costs also increased.

The increased cost of moving traffic, not compensated by additional revenue, was related to the considerable empty movement of passenger equipment to the seaboard for troop repatriation, also to the movement of Company fuel which had to be brought in from the United States at Sarnia and the Niagara Frontier for distribution throughout Eastern Canada.

The Directors feel that attention should be drawn to the higher costs of operation resulting from higher wage rates and higher unit prices for materials used in railway operation and maintenance. As compared with 1939 the higher wage rates added $43,041,000 to the payroll in 1945 and higher unit prices added approximately $26,350,000 to the cost of materials. In the event of any substantial decrease in traffic volume, not otherwise compensated for, these higher costs of operation would prevent a continuance of the favourable financial results which the System has been able to report for the past five years.

The above (see appendix "A") indicates what has happened in so far as operating costs are concerned. On the revenue side freight and passenger rates generally remained fixed at the pre-war level in accordance with the regulations of the Wartime Prices and Trade Board. Even so, by reason of changes in traffic characteristics, the actual revenues per ton mile decreased from 0·938 cents in 1939 to 0·915 cents in 1945 and the revenue per passenger mile from 2·035 cents to 1·953 cents. These reductions in average revenue rates are equivalent to a reduction in operating revenue of $10,742,000.

Net Operating Revenue. After deducting operating expenses, $355,294,000, from operating revenues of $433,773,000, net operating revenue was $78,479,000 in 1945. The corresponding amount in 1944 was $78,600,000.

Surplus for the year. After making provision for various charges consisting of taxes, equipment and joint facility rents, exchange and discount, also for various income credits such as dividend and interest income, the results of hotel and subsidiary company operations, etc., the net income available for the payment of interest was $71,084,272. Interest payments to the public and to the government totalled $46,328,142. After payment of interest the surplus for the year was $24,756,130, an increase of $1,729,206 over the previous year.

CAPITAL EXPENDITURE ACCOUNT

The capital expenditure during the year amounted to $21,709,204, details of which are given on page 20. The major portion of the total expenditure was for new equipment acquired under hire-purchase agreements with the Dominion

Government, consisting of 1,980 box cars and 146 refrigerator cars costing $10,078,911. Many needed improvements had to be deferred by reason of the shortage of manpower and materials.

FINANCE

Funded Debt was reduced during the year by $56,273,908 and government loans increased $29,097,741, a net reduction of $27,176,167. Details are as under:—

Funded Debt Retirements	
3% 16-year Guaranteed Bonds, Can. Nat. Ry. Co., called for redemption December 15, 1945, at par	$ 20,500,000 00
3% 13-year Guaranteed Bonds, Can. Nat. Ry. Co., called for redemption December 15, 1945, at par	30,000,000 00
4% Debenture Bonds of Stanstead, Shefford & Chambly Railroad Co.	155,865 25
5% Indebtedness to Province of New Brunswick	818,000 00
Equipment Trusts—annual principal payments	4,200,000 00
Various securities repatriated under the arrangements referred to in 1942 annual report—par value	600,043 14
Reduction in Funded Debt	$ 56,273,908 39
New Government Loans	
Loan to retire two Can. Nat. Ry. Co. bond issues as above at par, A. and St. L. Stock and various securities repatriated at market value	$ 51,102,570 77
Loans under Equipment Hire-Purchase Agreements	10,078,911 33
Total New Loans	$ 61,181,482 10
Government Loans Repaid	
Loans repaid out of 1944 surplus earnings	$ 3,026,924 35
Loans repaid out of 1945 surplus earnings	20,000,000 00
Equipment Hire-Purchase annual principal payments	5,322,170 70
Payment under Financing and Guarantee Act 1944. The amount available from reserves for depreciation and debt discount amortization in 1944 exceeded the total capital requirements for the year	2,776,532 03
Payment under 1938 Refunding Act, representing release of Trust Funds held re Can. Nor. Ont. Ry. 3½% Debenture Stock	958,113 83
Total Repayments	$ 32,083,740 91
Increase in Government Loans	$ 29,097,741 19
Net reduction in debt during the year	$ 27,176,167 20

Details of funded debt and government loans are shown on pages 21 and 22.

WAGES

During the year the National War Labour Board awarded six days' vacation with pay to additional employee groups which, together with changes in working hours and overtime rates, also directed by the Board, represented a further substantial increase in payroll expense.

From the beginning of the war to the end of 1945 the total cost to the National System of increased wage rates (including cost of living bonus) and changes in working conditions amounted to $146,261,000.

Applications have been received for further increases in rates of pay and changes in working conditions which, if granted, would represent an additional payroll expense of about $32,000,000 per annum. These applications were not acceded to by the management and for the most part are now before government tribunals in Canada and the United States.

CANADIAN NATIONAL EXPRESS

The traffic handled by the Express Department was the heaviest ever experienced. Shipments totalled 17,063,716, an increase of 8·13 per cent over 1944.

Movements of war materials during the first part of the year and the volume of merchandise traffic accounted for the increases. Fish traffic moved in greater volume, while fruit business declined somewhat.

CANADIAN NATIONAL TELEGRAPHS

The facilities of the Canadian National Telegraphs were taxed to capacity during 1945, and the volume of traffic, almost ten million telegrams, including 500,000 cablegrams, was the heaviest on record. The repatriation of overseas forces and the reconversion of industry to a peacetime basis contributed in considerable measure to this total.

Experimental work in connection with the establishment of a radio relay system Montreal-Ottawa-Toronto, in collaboration with Canadian Pacific Communications and the National Research Council, was actively carried on during the year.

HOTEL OPERATIONS

The business of the Company's hotels was the largest in their history in respect of guests accommodated and meals served. In all 2,534,575 meals were served during the year. Despite wartime controls, the difficulty in obtaining supplies, and the extreme shortage of labour, the standard of service has been maintained at a high level. The resort hotels, Jasper Park Lodge, Minaki Lodge and Pictou Lodge, which were closed during the war, will be open for the summer of 1946.

The Hotel Vancouver, owned by the Canadian National Railway Company and operated by a separate company for the Canadian National and the Canadian Pacific Railways, was well patronized during the year.

SLEEPING AND DINING CARS

The Company's Sleeping and Dining Car Department was called upon to meet a record demand for service. Meals served during the year in dining cars, café, buffet, commissary and kitchen cars totalled some five million, of which nearly 50% were served to members of the armed forces.

Under wartime conditions the Company was again unable to add to its sleeping and dining cars and during 1945 the equipment situation became more acute.

TRANS-CANADA AIR LINES

In 1945 the number of passengers carried by Trans-Canada Air Lines increased by 17% and air express volume by 11%, while air mail volume declined by 8%. A third daily transcontinental flight was established during the year. Development of a full commercial operation of the Canadian Government Trans-Atlantic Air Service, operated by T.C.A., was well advanced. Passenger tickets are now being sold and a trans-Atlantic air express service is in operation. There are three scheduled flights weekly in each direction across the Atlantic and these will be increased as planes become available.

VICTORY LOAN CAMPAIGNS

In the two Victory Loan campaigns held during the year, Canadian National employees subscribed $34,010,650, an increase of $11,150,100 over 1944. Contributions by personnel of Trans-Canada Air Lines, included in this total, amounted to $1,024,450.

Through the payroll deduction plan, employees invested a further $1,136,248 in war savings certificates during the year.

Apart from the individual purchases by employees, the Company subscribed $11,487,500 to the 1945 Victory Loans for account of reserve and other funds.

The total of employee subscriptions to all the wartime loans was $83,795,900. The railway subscribed $83,787,850 and Trans-Canada Air Lines, $1,899,500, making a total subscription of $85,687,350. The grand total for employees and Companies was $169,483,250. Total subscriptions to war savings certificates to the end of 1945 added $9,205,320.

The War Bond campaigns in the United States were well supported by employees on the System's United States lines.

GENERAL

The Company moved from Halifax and other ports 576 special trains for the transport of some 208,000 repatriated armed forces personnel from overseas. In approximately twenty-five crossings of the Atlantic, the senior hospital ship *Lady Nelson*, formerly of the Canadian National West Indies fleet, brought home more than 13,000 wounded and sick. Hospital cars built in the Company's own shops were used in the hospital trains. The armed services have been most gracious in their expressions of appreciation of the efforts of all departments of the railway on their behalf. The repatriation is now practically complete, apart from the movement of dependents from overseas.

After making a valuable contribution to the Dominion's war effort, the plant of National Railways Munitions Limited at Point St. Charles completed its work during the year. The building will be acquired by the railway for use as a car repair plant.

In 1946, deliveries of the following new equipment will be made: 650 box cars, 30 coaches, 10 mail and express cars, 10 baggage cars, 200 refrigerator cars, 400 box cars for the Grand Trunk Western Railroad, 16 diesel switching locomotives. The new equipment will be of the most modern design and the passenger cars will embody new features for the greater convenience and comfort of the travelling public. Existing equipment is being renovated in an intensified programme in the Company's shops.

Construction of the new line from Eastern Junction to Bout de l'Ile on the Island of Montreal was completed and brought into operation in 1945. The new line enables all trains from the Lake St. John and Abitibi area of Northeastern Quebec to come into the Central Station and by improving suburban service will greatly assist in the development of communities adjacent to Montreal. It also provides improved facilities for the transfer of freight in Montreal and shortens through routes. Completion of the new line permitted the abandonment of 27.62 miles of the St. Lin subdivision between Joliette and Montfort Junction.

The SS *Prince George*, in the Company's Pacific Coast service since 1910, was destroyed by fire on September 22nd.

THE STAFF

At the close of the war the Company desires to place on record its gratitude—shared by the nation as a whole—to those who gave their lives in the cause of humanity. The loss to Canada can never be estimated. From the ranks of the National System to join the honoured war dead have gone 842 brave men. The Company extends its deepest sympathy to their bereaved families.

The Company remembers with pride the 20,000 members of the staff who participated so gallantly in the conflict, and those who faced great hazard serving in the ships under the Company's management.

The management is happy to welcome back to their daily work with the railway those who have returned from the war fronts. While they were away

a large number of their fellow employees at home undertook to remain in service beyond the normal retiring age to assist the railway and the management in the emergency. As they now go into retirement, thus assisting in the re-assimilation of the war veterans, they take with them the best wishes and thanks of the Company for their valued co-operation.

The Directors express their gratitude to the men and women of the System who by their loyal devotion to duty enabled the National System to carry the heavy burden of the war years and give the shipping and travelling public the responsible, efficient and courteous service it has a right to expect.

The ACTING CHAIRMAN: Now, gentlemen, if there are any questions you wish to ask President Vaughan, do so.

Mr. REID: Mr. Chairman, I have one or two general questions I would like to ask the President. Perhaps I might have the opportunity of starting off because I have to attend another committee; if President Vaughan doesn't mind. One question is in regard to the statement made as to the fuel situation. What has been giving me concern is the importation of coal from the United States. I have just been wondering, Mr. President, if consideration has been given to the burning of oil in some of the provinces, because you have to transport coal and likewise you have to transport oil; but I am wondering if any consideration has been given to the burning of oil to overcome the difficulty which very often arises due to strikes and their effect on the importation of coal from the United States?

Mr. VAUGHAN: We have been, Mr. Reid. We have been using oil where it could be obtained. During the war we had difficulty in obtaining oil as well as coal. There is, as you know, insufficient oil produced in Canada to anything like take care of requirements for oil in Canada; but we have used as much Canadian produced oil and coal as we could get, and I think in future we will be able to use all the oil produced in Canada that is available. As you know, we are operating some oil wells of our own in Northern Alberta around Vermilion which we opened up as a result of the shortage created by the war. We were able to get some production, but it was very limited.

Mr. REID: I am sorry, Mr. President, I forgot at the outset to compliment you, not only on your splendid report, but also on the fact that I see you have put New Westminster on the map this year. I want to express my personal appreciation for your having done that, that makes my having been named a member of this committee very much worth while. However, that is an incidental in passing. I have some questions I would like to ask before I leave for the other committee. I have about four or five of them, and my first one is regarding lodges; for instance, Jasper and the other lodges. Over the years do they pay their way or are they run at a loss?

Mr. VAUGHAN: Well, let us say that generally speaking summer hotels are not profitable in themselves. Jasper usually makes an operating profit. But it must be remembered that a great deal of indirect benefit accrues to the railway by reason of the operation of Jasper Lodge, because we move a great many people in and out of there every year, from whom we get a long haul; so we feel that in the long run it pays us to operate these hotels both at Jasper and these other places.

Mr. REID: The next question I wanted to ask emanates from your report: Let us suppose the future is not bright, the situation which the railway faces from now on, particularly as compared with the war years. I was just wondering, Mr. President, if you have any suggestions you can make that might keep the railway out of the red better than apparently you feel will be possible?

Mr. VAUGHAN: We study every item of operating expense with a view to seeing if we can reduce that expense without unnecessarily curtailing the service

to the public. Speaking of Jasper Lodge, we have had so many applications for accommodation there that we just do not know what to do with them. We have been practically filled up there for two or three months in advance, that means an extensive volume of long haul traffic for the railway.

Mr. Reid: Regarding overtime, I notice overtime mentioned in your report. I had a delegation come in to see me regarding overtime just before I came down to the committee room this morning. Their complaint was that in certain sections there is far too great an amount of overtime, and their suggestion was that if overtime was cut down it would be possible to bring many more ex-service men into railway work. As one who is against overtime if at all possible to do without it, I was wondering if some attention was being given to the matter of having it reduced. For instance, they pointed out that a hundred miles per day used to be a run. The delegation were complaining, and I thought it was most generous on their part, because that rule is not now being observed and they were getting a great deal more overtime than seemed to them to be fair. One of the delegates said he did not want to do too much work, two months time in one, but there was nothing to stop him from doing that under arrangements as they now stand; he said, why could we not go back to the system which was in effect before the war. He was speaking of trainmen particularly.

Mr. Vaughan: They are all governed by train schedules and the men themselves are all parties to the arrangement. So far as overtime is concerned, a great deal of overtime was necessary during the war on account of the shortage of employees. We had to pay out large sums of money for overtime in all departments. That is being cut down every month and is now nothing like what it was. That overtime situation is being watched very carefully. These runs for the men are very carefully arranged, and while we do have some complaints, I think generally speaking the organizations, as a whole, are satisfied.

Mr. Walton: May I say with respect to that that each month since the beginning of the year we have been studying the payrolls for the express purpose of reducing overtime. Research is going on continuously and as a result of efforts which have been made overtime has been considerably reduced, and a number of additional men taken on. That is one of the things on which we get a special monthly report, and it is very noticeable that the proportion of overtime to total payroll has been on a descending scale each month since last November.

Mr. Jackman: I wonder if I might ask Mr. Reid for a clarification of the statement as to what one of the members of a train crew said to him, that is, not wanting to go over the hundred mile run limit and that they were doing far more than that, in effect that they could get all the overtime they wanted; and as I understood him, his complaint was that the amount of overtime was excessive and they wanted the rules brought back into force as they existed in the pre-war years thereby cutting down on the excessive amount of overtime and providing employment for more men. I think Mr. Reid said that in his opinion the complaint was a very fair one, they were not asking for more money but rather that they did not want to be working sixteen or seventeen hours a day—and I think he said one member of the delegation told him something to that effect, that in many instances that they could do that; and I gather from what he said that it was the desire of the men themselves that they should be permitted to return to the rules of operation which applied prior to the war.

Mr. Walton: I may tell Mr. Reid, and others interested, that we do not have arrangements whereby a man can put in from seventeen to eighteen hours

a day. It is conceivable in the event of some unforeseen delay which might occur that one single trip might involve excessive hours, but the runs are not set up on that basis.

Mr. Reid: This man told me he was on a freight train, he said, "I can put in all the hours I want to;" he said, "there is nothing to prevent me if I can do without sleep, I can work as long as I want to." What this man wants is to see the mileage cut down to what it was before the war so that not only would they be putting in a fair and reasonable amount of time, but more particularly so that there would be more opportunity for employment for returned service men. And I may tell this committee that this man was a returned soldier from the last war.

Mr. Walton: That statement is one which I think should be accepted with some qualifications, because we have different working arrangements with the various branches of employees which set out the maximum mileage. These men are paid by the miles, not by the month.

Mr. Reid: I will promise you this, I will get a statement from this individual and place it before you at our next session.

Mr. Walton: It will be appreciated if you will arrange to do that, Mr. Reid. May I say that it was only due to the pressure of war years that we extended the working mileage, of course, that is a situation which does not exist at the present time.

Mr. Jackman: Some time ago we were discussing that rule of one hundred miles per day. I think Mr. Vaughan said at that time that that rule was in operation when he first started in railroading,which is quite a few years ago I believe, Mr. Vaughan?

Mr. Vaughan: Yes, it was.

Mr. Jackman: How could a man help putting in more than one day's work if he is only allowed to run one hundred miles the average day?

Mr. Walton: I was speaking of a monthly maximum, not a trip mileage. He may make one hundred and forty or one hundred and fifty miles on the individual day, but the wage agreement is for regulation on a monthly basis, so that in respect to length of trips the whole matter is subject to monthly regulation.

Mr. Jackman: What would be the regulation with respect to one of these crack trains running, let us say, down to the maritimes, or between Montreal and Toronto. The engineers and the train crews would be piling up mileage pretty fast on runs of that kind if the one hundred mile rule were applied. It certainly would not take them very long to acquire that amount of mileage. Can you give us the approximate figure over the system which indicates how long it takes for a man to pile up one hundred miles?

Mr. Walton: Well, it varies of course. On the fast trains of the type to which you referred, the man would make a hundred miles in two or three hours, but on a slow way freight train which has to work its way along the line such as in local freight, it is a variable factor, depends on type of work in which the man is engaged.

Mr. Jackman: You must have a figure which shows how long it takes the average individual to run up his hundred miles.

Mr. Walton: There are so many variable factors entering into it that I am afraid it will not be possible to give you any figure of the kind for which you have asked. However, I would say that in the passenger train service the average would be somewhere around three hours to run one hundred miles. In through freight service on double track lines where there are no meets to be made the miles would be made very quickly. And on single track operation on

the other hand it would vary anywhere from four and a half to seven and a half hours, something like that. On way freight trains, those which do a lot of work at almost every stop, it would be anywhere from eight to nine or ten hours, and there would be odd cases where it would be more.

Mr. JACKMAN: Where you have a way freight picking up freight do you pay the man on any other basis than just on the mileage covered?

Mr. WALTON: Yes, the rule provides for payment on the basis of hours, or miles, whichever is the greater.

Mr. NICHOLSON: What about a man who works on one of these mixed trains where it takes twelve hours or more to make a run. How do you cover that? Does the mileage rate cover that?

Mr. WALTON: They have a regulation of mileage which applied except in wartime when special arrangements went into effect. Under that rule a maximum monthly mileage is fixed.

Mr. NICHOLSON: And that is in effect now?

Mr. WALTON: Yes. It is based on so many miles, or so many hours, and on these long runs he gets a layoff of so many days before he goes back on again.

Mr. NICHOLSON: And what are they paid for this overtime, regular rates or time-and-a-half?

Mr. WALTON: On some parts of the line overtime is paid pro rata while on other parts of the line it is paid on the basis of time-and-a-half. Whether it is paid pro rata on the basis of time-and-a-half, involves a number of other factors. For instance, on a local way freight run where it would normally take eight to ten hours to cover the distance no overtime would be paid until the average speed for doing the job had been made.

Mr. NICHOLSON: In other words, he would be expected to put in eight hours as his regular day, and then for anything over eight hours he would get time-and-a-half?

Mr. WALTON: Yes, if it is a hundred-mile run; and, similarly, if it was freight service it would take a certain rate while it would be different for a passenger service.

Mr. JACKMAN: I should think it would not take a man very long to put in his hundred miles on some of these fast passenger trains, they would get one hundred miles in in about two and a half hours. How could you help but pay men of that kind a large amount of overtime?

Mr. WALTON: On many of the long runs, runs over a hundred miles, there are a certain number of non-working days in the month for the men. For instance, in such a case as the one to which you referred, those trains which operate between Montreal and Toronto, the fast passenger trains; let us say that a man on that train comes from Montreal to Toronto, 334 miles.

Mr. JACKMAN: Will one crew take the train right through?

Mr. WALTON: Yes, not the engine crew, the conductor and the train crew. There is a certain schedule of crews worked out so that they have a proper rest in Toronto after they have made their run of 334 miles. Similarly, when they make the return run to Montreal they have a certain rest period of considerable length. A sufficient number of crews are in a pool of runs so that in a month they make approximately the regulated monthly mileage about which I spoke.

Mr. JACKMAN: So that if a man goes from Montreal to Toronto one day, and makes the return trip some time during the same week, he has put in 668 miles which would be about six days' work under this hundred mile schedule?

Mr. WALTON: The passenger mileage is one hundred and fifty, the one hundred miles refers to freight. He would make it in approximately two days.

Mr. JACKMAN: How far did you say it was, 330 miles?

Mr. WALTON: Yes, 334 miles.

Mr. JACKMAN: Then, as I say, it would be 660 miles for the round trip. He would make his full mileage schedule for the week in that round trip. In other words, he could not possibly work more than half a week on runs of that kind.

Mr. VAUGHAN: That is quite right.

Mr. JACKMAN: And he piles up his average very quickly.

Mr. WALTON: That is right.

Mr. JACKMAN: And what does he do then, nothing?

Mr. VAUGHAN: He does nothing.

Mr. WALTON: He does nothing, as far as we are concerned.

Mr. JACKMAN: Does that satisfy him?

Mr. WALTON: Apparently.

Mr. GIBSON: He is still paid the average anyway.

Mr. JACKMAN: And he isn't working half his time.

Mr. WALTON: Let us consider the mileage arrangement for a trip of that kind on that part of the line. Let us assume that the amount of mileage he is permitted to make on a run of that kind is 6,000 per month. A sufficient number of crews are put into the pool with respect to certain trains, we arrange the operation of that train so that each man gets in his 6,000 miles per month on the work with a sufficient number of days off during the month to give them rest between trips; short periods of rest for them when they are away from their home terminals, with longer rest periods at their home terminals. That is the way it is worked out.

Mr. JACKMAN: So he works 6,000 miles on that run; that may be an exceptional one, but he actually works ten days, puts in ten round trips to pile up that mileage.

Mr. WALTON: Just about that.

Mr. JACKMAN: And then I take it that any service he puts in beyond that mileage would be considered overtime, and would be paid for at the overtime rate. Would that be pro rata, or would that be time and a half?

Mr. WALTON: Arrangements are worked out so that they do not go beyond their mileage. A sufficient number of crews, or men, are kept in the pool so that it will take care of that.

Mr. JACKMAN: I realize that the matter is one which is not entirely in your hands as operators of the road, that the unions as well as the operating officials are concerned with the drawing up of rules such as the one which we have been discussing.

Mr. WALTON: Yes, it is an arrangement with the railway union, but it is not a hampering rule in so far as our expenses are concerned, if I make myself clear.

Mr. JACKMAN: Then, accepting the standard of one hundred and fifty miles as a generality, may I suggest that ten round trips between Montreal and Toronto, constituting a month's work, does not seem hardly right.

Mr. WALTON: The point that I am trying to make clear is that it imposes no penalty on the company, from the operating standpoint and it spreads the work. If there is any other objection to it, I do not see it at the moment.

Mr. JACKMAN: It is satisfactory to the government if they are willing to accept the rule of one hundred and fifty miles being a fair day's work on a run like that. What it really works out to is this, that you have a considerable number of running crews each of whom completes his monthly assignment in ten round trips between Montreal and Toronto.

Mr. WALTON: That is right.

Mr. JACKMAN: May I say that seems to me to be rather easy.

Mr. VAUGHAN: But, you don't have to collect fares.

Mr. LACROIX: Mr. Chairman, may I call attention to the item of fixed charges paid by the company. I see that their fixed charges amount to some $49,000,000, of which $26,000,000 odd is for interest on funded debt-public, and $20,306,000 is "interest on government loans". I see that the payments made on that account amounts to roughly twenty per cent gross revenue. That is a very important item, is it not?

Mr. VAUGHAN: Yes, sir.

Mr. LACROIX: I just wanted to ask the minister if there is any way of easing the burden of interest payments to the government so as to enable the company to improve their position in such a way as would place them in a more favourable position in comparison to other railways.

Hon. Mr. CHEVRIER: I can only say in reply to that, Mr. Chairman, that the question is one which is being studied very carefully and very earnestly. It is being studied with a view to the possibilities of refinancing; as a matter of fact only recently a refinancing scheme was put into effect which has meant a saving of a million dollars a year to the company. And another matter has been given some attention, the possibility of accepting income bonds in view of interest on demand notes on certain repatriated stocks. While no decision has yet been reached on that aspect of the matter the government is giving it very close, very serious consideration.

Mr. HAZEN: Did you say that a refinancing scheme has been put through?

Hon. Mr. CHEVRIER: No, what I meant by that was that certain issues of bonds are refinanced from time to time and the interest rate revised on the refinancing, thereby making a saving to the company of a certain amount.

Mr. HAZEN: And now, I would like to ask another question. You say in the statement which you first read to the committee, after referring to these recent costs of operation:—

> We are in the toughest kind of a squeeze play. Our selling prices are frozen but our production costs are mounting in ominous fashion. Even a continuation of traffic volume at wartime levels would not suffice to enable the railway to shoulder additional burdens of the magnitude I have outlined, without relief of some sort. Traffic volume is now falling.

Then you say that these conditions cannot go on, and you suggest that there must be some relief somewhere.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: Have you in mind any particular form of relief?

Mr. VAUGHAN: The form of relief that we have in mind is an increase in freight rates.

Mr. HAZEN: What about passenger rates?

Mr. VAUGHAN: We have not given consideration, for the time being, to an increase in passenger rates. As you know, in the United States the railways have applied for an increase of 25 per cent in their freight rates. We have not submitted any application—and when I say we I mean the Canadian railways—yet to the government.

Hon. Mr. CHEVRIER: Does the American brief include passenger rate increases?

Mr. VAUGHAN: No, sir.

Mr. HAZEN: The Canadian Pacific Railway must find itself in the same position as your railway does?

Mr. VAUGHAN: Yes, they do.

Hon. Mr. CHEVRIER: Their annual report would indicate that.

Mr. HAZEN: Do you propose to make an application for an increase in freight rates? How does the matter stand at present?

Mr. VAUGHAN: Yes, we do propose to make an application for an increase in freight rates.

Mr. HAZEN: From the look of your statement it seems to me that that should be done in the near future.

Mr. VAUGHAN: That is now in the course of preparation by the railways in Canada, by all the railways in Canada.

Mr. HAZEN: Do you know when it will be made?

Mr. VAUGHAN: I could not say just at the moment. It is rather difficult for us to make up our mind as to just exactly how much we need. There are increases in expenses coming along almost daily: new labour awards are being made by the War Labour Board at Ottawa; increases in prices are being allowed almost daily on materials which railways use, and we do not know where the end is going to be; and we would not like to make an application and find we had not asked for enough.

Mr. HAZEN: When Mr. Reid was here he asked you if you had any suggestions to make for keeping the railway from going in the red—if I understood him correctly—and I suppose this would be one of the means?

Mr. VAUGHAN: That matter has been very actively under consideration.

Mr. HAZEN: Now, on page 1 of your report to the minister you say: "Competition between railway and highway services presents a problem of growing importance. It is desirable that this competition should be on a fair basis, having due regard to public convenience and necessity. To accomplish this, common regulatory control would seem to be necessary."

Mr. VAUGHAN: That is right.

Mr. HAZEN: Has your company taken any steps to recommend or to bring about some common regulatory control?

Mr. VAUGHAN: The railways of Canada have for some years recommended there should be a common regulatory control. Perhaps the minister could explain the question.

Hon. Mr. CHEVRIER: I can say something with reference to that. I do not recall the year, but the then Minister of Transport, who was Mr. Howe, including in a bill a section or sections whereby the Board of Transport Commissioners would have jurisdiction over transportation on certain highways, and I think, although I am speaking from memory now—I think it had to do chiefly with interprovincial travel; parliament refused to give the minister that authority. Then, again, I think there was a bill submitted to the Senate with the same end in view which was later withdrawn because of objection.

Mr. HAZEN: It was interprovincial?

Hon. Mr. CHEVRIER: Yes, of course, Mr. Hazen will realize immediately there is a difficult problem there, one having to do with provincial rights, and the government attempting to give to the Board of Transport Commissioners jurisdiction over highways would get into all sorts of difficulties.

Mr. HAZEN: For through freight going from one province to another, there might be something.

Hon. Mr. CHEVRIER: Yes, on the face of it that would seem to be in order, but my understanding of the law is that when a matter becomes interprovincial consent of the provinces is necessary before any legislation has effect.

Mr. HAZEN: Could the minister tell us whether this matter has been explored further; has anything been done about it?

Hon. Mr. CHEVRIER: It is under consideration all the time because of representations that are made by the railway, but so far as further exploration is concerned, unless the provinces consent to give up a part of their jurisdiction, I do not think we can proceed any further.

Mr. HARKNESS: Mr. Vaughan, in connection with these increases in rates which you people no doubt have been studying, are you thinking of a flat increase, or are you thinking of a revision of railway rates generally in that connection?

Mr. VAUGHAN: That has not been determined either. We will probably follow to some extent what has been done in the United States, not necessarily using the same percentages. They have asked for a flat increase of 25 per cent on most commodities with specific increases on other commodities such as coal, lumber, ore and things like that.

Mr. HARKNESS: What I was thinking of is this: you know that there is a great deal of dissatisfaction in some parts of the dominion over the freight rates the people have to pay, and I was wondering whether your proposals involve a revision of the freight rate structure in order to meet some of these inequalities.

Mr. VAUGHAN: No, sir; any application we would make for an increase in freight rates would not take those matters into account; we would only deal with the freight rate structure as it exists at the present time.

Mr. HARKNESS: I wonder if the minister could tell us whether anything is contemplated in the revision of freight rates?

Hon. Mr. CHEVRIER: Well, I think the president has answered that very well. It is not up to the government to make application in regard to freight rates.

Mr. HARKNESS: What I was thinking of is this: all kinds of bodies in western Canada particularly have made application for revision of freight rates——

Mr. MUTCH: Reduction.

Mr. HARKNESS: A revision to bring some of these freight rates in certain areas more in line with freight rates in other areas, and I was wondering if the government was exploring that situation at all or had contemplated doing anything along that line?

Hon. Mr. CHEVRIER: Perhaps the best way to answer that is to tell Mr. Harkness that the question of freight rates is one which is a difficult one, and perhaps one of the most difficult things to understand is the manner in which freight rates have been set up all across the country. The application, should it be made, would, I presume, be made by the railways to the ordinary court, namely, the Board of Transport Commissioners of Canada. Whether the application would be one for a flat increase or one for increases in various parts of the country, I do not know. The president says he is giving that some consideration; but if an application were made to the Board of Transport Commissioners I believe that anybody affected would have the right to reply, to put in a counter-submission, suggesting that in certain parts of Canada there is an unfairness created by the rates, and asking for revision downwards. It would then be up to the board to decide what decision to make under the circumstances. That is one method of dealing with the difficult and complicated question of freight rates.

Mr. VAUGHAN: Wartime prices control is involved.

Hon. Mr. CHEVRIER: As the president points out, there is that very important feature, namely, that under the regulations of Wartime Prices and Trade Board

freight rates cannot be upped; they cannot be revised downward or increased; and until that regulation has been amended or taken away the freight rates could not be increased.

Mr. HAZEN: The total operating revenues are $433,773,000. Of that amount how much was obtained from freights, and how much from passengers?

Mr. VAUGHAN: You will find that on the opposite page, on the first page, marked No. 4 in the report. (Page 8 here)

Mr. GIBSON: Twenty-five per cent there would be about $80,000,000.

The ACTING CHAIRMAN: How would it do if we took this report page by page, starting on page 5?

Mr. NICHOLSON: Let us go back to the original statement of the president. I would like to follow up a statement made. He suggested that something should be done about reducing the interest paid to the government. I think we are all concerned about the problems raised by the president with regard to future earnings. I note that our fixed charges are 11.3 per cent, a ratio of nearly twice that of the Canadian Pacific Railway or of class one roads in the United States. I gather that this situation has existed ever since the Canadian National Railways System was incorporated. Could the president indicate how frequently representations have been made by the management to the government for some relief in this field and how recently the last representation has been made?

Mr. VAUGHAN: I have a statement here which I prepared with respect to fixed charges, and which I shall read to the committee with the permission of the chairman, if I may. It goes into all that matter in detail. There are copies of this statement which will be passed around to the members so that they can follow as I read it.

Mr. JACKMAN: In connection with Mr. Hazen's question with regard to interprovincial trucking, may I ask the minister whether the opinion he gave about the jurisdiction of the federal government in that field was a legal one?

Hon. Mr. CHEVRIER: No, I was speaking from memory, Mr. Jackman.

Mr. JACKMAN: Has the dominion not the right to regulate interprovincial traffic, as they do interstate traffic in the United States?

Hon. Mr. CHEVRIER: The situation in the United States is entirely different from that in Canada. In the United States there is an Interstate Commerce Commission which has jurisdiction over the whole country, whereas in Canada there is a provincial body in each province: in Ontario, it is the Municipal Railway Board; in Quebec it is the Public Services Board; and in other provinces it is some other board.

Mr. JACKMAN: But in each of the states of the union there will undoubtedly be a separate state board to regulate intrastate trucking; but where does the I.C.C. get its jurisdiction if it does not get it from the constitution of the United States, and have we not a similar provision—

Hon. Mr. CHEVRIER: I think the I.C.C. gets authority from the constitution, but we have no similar provision.

Mr. JACKMAN: Have we not any implied power in that regard?

Hon. Mr. CHEVRIER: Well, that is a matter—

Mr. JACKMAN: Surely it must have been up time and time again?

Hon. Mr. CHEVRIER: With reference to that question, it is a matter for legal opinion, and I would not like to give my opinion as being a legal opinion on the question.

Mr. VAUGHAN: It was up actively in the House.

Hon. Mr. CHEVRIER: Undoubtedly.

Mr. MUTCH: And before the committee.

Mr. JACKMAN: I am not asking for a political decision, which is guided by other considerations. Does the British North America Act give us power as a federal authority to regulate interprovincial trucking traffic if we so desire?

Mr. LACROIX: That is not a matter for us to decide; that is a matter for interprovincial conferences; and the way things go on now it is not going to be settled quickly.

Mr. JACKMAN: I am asking whether we have the power, because in interprovincial conference—

Mr. LACROIX: You have received the answer.

Hon. Mr. CHEVRIER: I am afraid, Mr. Jackman, that I cannot answer that question other than I have. I tried to say a while ago that so far as intraprovincial transportation is concerned, I think clearly it is within the provincial jurisdiction, but so far as the interprovincial matter is concerned I am not in a position to answer. I would think, however, that some consent of the provinces would be required. What makes me think that is this, that when a like section was introduced into a bill in the House, giving to the Board of Transport Commissioners of Canada jurisdiction over that kind of traffic, there was so much objection from certain members of the House on this very legal point that it was seen fit to withdraw that section.

Mr. HAZEN: Would it be in order to ask the Department of Justice for a ruling on that question which Mr. Jackman has just asked?

Hon. Mr. CHEVRIER: I shall be glad to get it.

Mr. HAZEN: I think it would be important to have that decision.

Hon. Mr. CHEVRIER: I shall be glad to get it.

Mr. JACKMAN: In the B.N.A. Act, as I recall it, there is a section which says that any railway in Canada, whether intra- or interprovincial can be declared to come under your department. There is some section which gives the dominion the right to declare any railway in Canada under your jurisdiction.

Mr. MUTCH: Aren't we getting a little ahead of ourselves?

Mr. JACKMAN: Where does the power derive from?

Hon. Mr. CHEVRIER: If you are referring to railways, there is no question that the federal government has jurisdiction; but I am not talking about railways, I am talking about competition of the railways with trucks and the like on the highways.

Mr. JACKMAN: Railways are specifically set out in the B.N.A. Act as within the province of the dominion.

Hon. Mr. CHEVRIER: Right.

Mr. JACKMAN: And once you declare a railway under this section it comes within your province, but no such section refers to interprovincial trucking?

Hon. Mr. CHEVRIER: No, but there is a section, section 92 of the B.N.A. Act, which clearly gives authority to the provinces so far as highways are concerned.

The Acting CHAIRMAN: Gentlemen, is it your wish that Mr. Vaughan shall read his statement, and afterwards we will go on with the report?

Mr. VAUGHAN: This is the statement with respect to fixed charges of the system:—

During the meetings of this committee in October last, attention was called to the disproportionate amount of gross revenues of the National System absorbed by fixed charges and there was some discussion of the matter, at which time I advised the committee we had up with the Department of Finance the question of certain adjustments in our fixed charges and suggested the

matter might be more fully discussed at the next meeting of the committee. In anticipation of such discussion I have prepared a memorandum stating our views and indicating the necessity for remedial action. I might say that the negotiations with the Department of Finance to which I referred last year related to a recommendation of mine that the government accept income bonds of the Canadian National Railway Company in payment of the amount owing by the railway to the government for repatriation of British securities.

In a matter of this sort it is well to examine into the principles underlying the capitalization of railroads generally. In the United States the issuance of railroad securities is under the complete control of the Interstate Commerce Commission. Under section 20a of the Interstate Commerce Act it was made unlawful for any carrier to issue securities unless and until the commission by order authorizes such issue. In recent years the commission has exerted strong pressure on the railways to bring about a gradual reduction of funded debt and fixed interest charges. They have stated this is their policy and that it will be continued. One opportunity to effect a reduction is the utilization of surplus earnings. Another is afforded when bond issues mature and can be refunded at current lower interest rates. In approving 27 railroad refundings during the twelve-month period from June, 1944 to May, 1945, involving $1,081,415,000 of new securities, there was an annual saving in interest charges based on the differences in the coupon rates on the old and new issues in excess of 25 per cent. The main reduction, however, has been brought about under plans of reorganization under section 77 of the National Bankruptcy Act. Subsection (*b*) under which railroad reorganizations are effected, requires that the plan of reorganization shall provide for fixed charges in such amount that, after due consideration of the probable prospective earnings of the property in the light of its earnings experience and all other relevant facts, there shall be adequate coverage of such fixed charges by the probable earnings available for the payment thereof. Fixed charges, which is a term in general use by the railroads, it should be noted, comprises rent for leased roads and equipment, interest on funded and unfunded debt and amortization of discount on funded debt and, in the case of Canadian National, interest on government loans.

Attached to the memorandum you have before you is a statement "A" which shows as of September 30, 1945, the reduction in fixed charges under plans of reorganization approved by the commission. From this statement you will note that the debt of 32 railroads before reorganization was $4,300,521,178, and after reorganization was $1,833,543,264, a reduction of $2,466,977,914. This reduction is 57·36 per cent of the prior debt. The annual fixed charges were reduced from $148,865,539 to $40,113,369, a reduction of $108,752,170 or 73·05 per cent. I ask the committee to note that not only was there a very substantial reduction in total debt but also that the debt after adjustment included $824,441,464 or 45 per cent in the form of income bonds.

The procedure followed by the commission when making changes in the capital structure of American roads, after determining the total amount and the majority of each class of claims, is to ascertain what is the reasonable amount of net earnings which may be expected under all conditions to be available for fixed interest charges. Thereafter the total amount of fixed interest bearing debt and interest thereon is placed at a figure within the expected earning capacity, and the possibility of increased earnings over the minimum figure is used as a basis for allocating income bonds. If there is a possibility that contingent interest may be earned then provision is made for preferred stock.

The committee will also wish to refer to the funded debt and fixed charges of the Canadian Pacific Railway Company. The funded debt of that company at the end of 1938 was $232,188,724, whereas at the end of 1945 it was $93,669,000,

a reduction of 59·66 per cent. The 1945 report shows that their fixed charges (which in 1938 amounted to $26,853,756) have been reduced to $19,547,129 in 1945, a reduction of 27·21 per cent. This reduction in fixed charges has been brought about by debt retirements out of surplus earnings and by refundings at lower interest rates, and also by putting their Soo Line through reorganization proceedings. There is an apparent disparity in the ratio between their funded debt and fixed charges. The explanation is that their fixed charges include not only interest on funded debt but interest on debenture stock, leased road rentals, and the interest guaranteed by the C.P.R. on the Soo Line Company's bonds, etc. They do not include the principal of their debenture stock in funded debt.

Now let us see how the Canadian National compares with American railroads and with the C.P.R. In the seven years referred to, 1938-1945, the funded debt of Canadian National Railways, including loans at interest from the government, was reduced from $1,298,141,226 to $1,247,381,610, a reduction of 3·91 per cent, and the fixed charges were reduced from $53,451,741 to $49,009,508, a reduction of 8·31 per cent. In our case the reduction has been brought about by the utilization of surplus earnings, repatriation proceedings and refunding at lower interest rates.

As I have mentioned, the Interstate Commerce Commission in their determination of permissible fixed charge debt place main reliance upon the carrier's ability to service such debt. It is one thing to talk about cost per mile of road, operating ratio, mortgage security, and so on, but if the earnings are insufficient to support the debt structure imposed upon the property, that structure is top heavy. Statement "B" attached to this memorandum shows the relationship of fixed charges to gross earnings for the larger U.S. roads, also for U.S. class 1 roads as a whole, and for the Canadian Pacific and Canadian National respectively. In 1939 which is taken for comparison as being the last pre-war year, the ratio of fixed charges to operating revenues for class 1 railroads was 15·21 per cent, for the C.P.R. 16·76 per cent and for the C.N.R. 26·24 per cent. For 1944, the latest year for which full comparison is available, the percentage for class 1 railroads was 6·00, for the C.P.R. 6·50 and for the C.N.R. 11·44.

May I interject here that the Canadian Pacific has a further advantage over the Canadian National in that a very large part of their interest charges is paid in sterling from which they receive an exchange benefit. Nearly $20,000,000 of our interest charges are payable in U.S. funds on which there is an exchange penalty. This exchange feature, so far as interest charges are concerned, penalizes the Canadian National by $1,937,000 a year whereas it benefits the Canadian Pacific to the extent of over $300,000 a year.

Even if our debt to the government with respect to repatriated securities were put on a contingent interest basis our percentage of fixed charges to operating revenues in 1944 would be 8·35 as compared with 6·50 for C.P.R. and 6·00 for U.S. class 1 roads. On any basis of comparision the C.N.R. is seen to be out of line in the relationship of its fixed charges to its gross revenues. This situation is inherent to the National Railway System. It follows from the policy adopted when the insolvent privately owned railways were taken over with all their debts. In the five years prior to 1923 (the first year of amalgamation) the railways comprising the amalgamated system lost $60 millions before providing for interest. Including interest (about $32 millions per annum) they lost $222 millions, an average annual deficit of $44 millions. That was before the Canadian National Railways came into being.

Now it may be said that the Canadian National Railways had its capital structure revised in 1937 and I think some explanation should be given as to what that revision accomplished as I think it is thought by some people that our capital structure was revised and put upon a satisfactory basis at that time. We had an adjustment it is true, but it was only a partial adjustment. The 1937 revision was confined to the relationship between the government and the railway and did not deal in any way with the large funded debt of the system in the hands of the public. It was considered at the time there was no possibility of the Minister of Finance taking up in public accounts a block of railway obligations so long as they were held by the public. It would have been impracticable to leave out of the railway accounts any of its outstanding securities in the hands of the public.

Among the things which were done under the Capital Revision Act was the removal from the railway balance sheet of all government loans to the railway on deficit account for the period prior to 1932. Of course, they should never have been there. It was wrong from the beginning to treat appropriations for deficits as interest bearing loans. The government was only restoring its impaired equity as proprietor of the National System. It was not adding to the capital in the enterprise and the payments were not represented in any way by income producing assets. These facts were recognized in 1933 as a result of criticism in the Duff Commission report. From 1932 forward any deficit in the operation of the railway has been met by vote of parliament. The Capital Revision Act of 1937 applied this principle retroactively in respect of deficit payments prior to 1932. That is to say, the 1937 revision treated deficit payments prior to 1932 similarly to the treatment which had been given to payments from January 1, 1932 forward.

With respect to government loans for capital purposes, prior to 1932, the Capital Revision Act changed the category of such loans to equity capital. The amount involved was $270,037,437. The Act benefitted the railway in that this amount of government capital in the railway became share capital and freed from any fixed charge against operations, but it is not a fact that this adjustment was considered a final adjusment or an adequate adjustment. The fact is, as stated above, the adjustment permissible at that time was restricted to the debts of the railway to the government and could not extend to the debts of the railway to the public. It was thought unwise to refuse the relief it was possible to secure on the grounds that it was not a final and complete solution. The evidence before the standing committee on May 28, 1935, pages 207-214, gave a clear indication that in the opinion of the trustees the proposals for capital revision then under consideration did not go far enough and that the annual interest on the funded debt in the hands of the public would continue to be greater than the railway could be reasonably expected to carry from net earnings. Later after the trustees had been superseded by a board of directors and the directors were asked for their views, in their minute of January 21, 1937 approving the policy of the bill they added to their resolution the directors "desire to add that they reserve the right to recommend additional measures when they have had time and opportunity for a more detailed study of the capitalization and general financial position of the system". The Capital Revision Act was made effective to the accounts of the railway as of December 31, 1936. It is worth noting that on their reduced basis the fixed charges represented 28 per cent of gross revenues. The Canadian Pacific ratio in 1936

was 17 per cent and for U.S. class 1 railroads the percentage was 16·12 per cent. Clearly no effort was made to put us on a comparable basis with such other railroads. As a result of the war however, a large block of railway securities previously owned by U.K. residents has been transferred under repatriation proceedings from public ownership to that of the government and had the present situation existed in 1937 it is fairly sure that the repatriated securities would have been retired as railway interest bearing obligations and the government's interest would have been put on an equity basis, as was done in 1937 as regards all the indebtedness of the railway to the government for capital purposes.

Another thought which may occur to you is why we are exercised about this matter at a time when the railway has been meeting all its interest charges, including interest payable to the government. I desire that there shall be no misconception as to the basic situation confronting the railway because of any prosperity created by wartime conditions. Using 1941 as a base year, our gross revenues in that year were $304 millions. Since then the railway payroll has been increased by reason of the cost-of-living bonus, increases resulting from awards of the National War Labour Board, allowances for holiday pay, etc. Prices for railway material have increased. It is estimated that had the 1945 level of operating costs been in effect during 1941 there would have been an additional charge to the 1941 operating expenses of $53·3 millions. In 1941 with gross revenues of $304 millions, and at the level of operating costs then prevailing we had an income surplus of $4 millions, but had the 1945 level of operating costs prevailed the surplus of $4 millions would have been turned into a deficit of $49 millions. We do not know to what level traffic volume will decline from its wartime level but we are concerned at the prospect of a substantial decline and at the same time to be confronted with these large additional operating charges. We also foresee increased bus and truck competition, and deepening of the St. Lawrence waterway, and increased air transportation. I am trying to put the Canadian National Railways on a sound basis, we want to show a satisfactory financial statement and we do not want to feel that we are a burden on the government. We do not want the "railway problem" to reappear. The Canadian National Railways is operating efficiently but it may very easily be made to appear a failure because it cannot achieve the impossible. In that event the effect on the railway organization itself will be one of discouragement. Moreover the comparison between state ownership and private enterprise is involved. State ownership should not be so handicapped as to preclude the possibility of a proper comparison with railways under private ownership.

In conclusion I should emphasize that the acceptance of our proposal would not increase or diminish the amount of our cash settlements with the government. We always pay them everything we earn, a part of such payments being in the form of interest and the remainder as surplus, and we shall continue so to do. The only effect it would have would be that in those years in which we failed to earn part or all of the interest on the loans in question, our book deficit would be correspondingly reduced and it would not be necessary for parliament to vote us a contribution in order to pay to the government the unearned interest.

STATEMENT "A"

CHANGES IN DEBT AND ANNUAL FIXED CHARGES UNDER PLANS OF REORGANIZATION APPROVED BY THE COMMISSION FOR RAILROADS IN REORGANIZATION PROCEEDINGS BEFORE THE COMMISSION AS OF SEPTEMBER 30, 1945

	Debt			Annual Fixed Charges		
(1) Plans Approved by Commission	Before Re-organization (2)	After Re-organization (3)	Reduction (4)	Before Re-organization (5)	After Re-organization (6)	Reduction (7)
Akron, C. & Y.	$ 8,309,858	$ 3,977,500	$ 4,312,358	$ 364,956	$ 170,965	$ 193,991
Alabama, T. & N.	5,024,257	1,904,663	3,119,594	237,763	10,472	227,291
Alton	70,248,635	29,192,612	41,056,023	1,689,613	328,807	1,360,806
Boston & Providence	2,821,000	....	2,821,000	....	....	....
Central of Georgia	88,850,319	33,499,852	55,350,467	2,907,201	644,448	2,262,753
Chicago & E. I.	50,250,476	28,071,500	22,178,976	2,248,798	662,869	1,585,929
Chicago & North Western	431,390,104	222,078,460	209,311,644	16,549,740	3,382,079	13,167,661
Chicago Great Western	48,050,452	27,190,268	20,860,184	1,898,783	849,000	1,049,783
Chicago, I. & L.	45,326,597	16,598,296	28,728,301	1,506,965	142,439	1,364,526
Chicago, M. St. P. & P.	670,259,024	208,595,327	461,663,697	13,924,316	3,481,903	10,442,413
Chicago, R. I. & P.	456,726,866	128,850,060	327,876,806	13,227,913	1,734,972	11,492,941
Chicago, S. S. & S. B.	5,604,447	1,553,800	4,050,647	334,117	50,870	283,247
Copper Range	2,280,000	....	2,280,000	107,975	600	107,375
Denver & R. G. W.	193,955,366	87,474,322	106,481,044	6,577,456	2,090,023	4,487,433
Erie (Incl. Chicago & Erie)	304,981,178	191,277,279	113,703,899	13,593,536	7,520,226	6,073,310
Florida East Coast	87,660,000	20,916,000	66,750,000	2,809,555	19,555	2,790,000
Fonda, J. & G.	8,381,334	1,249,755	7,131,579	150,311	26,158	124,153
Fort Dodge, Des. M. & S.	10,186,591	2,260,000	7,926,591	305,138	8,300	296,838
Kansas City, K. V. & W.	717,062	31,895	685,167	25,676	1,500	24,176
Louisiana & N. W.	2,319,394	968,980	1,350,414	112,413	34,822	77,591
Middletown & Unionville	432,671	20,000	412,671	7,400	0	7,400
Minneapolis, St. P. & S. S. M.	160,818,865	32,792,960	128,025,905	8,680,071	54,860	8,625,211
Missouri Pacific	679,025,516	352,683,131	326,342,385	27,759,356	7,289,735	20,469,621
New York, N. H. & H.	385,990,594	233,220,840	152,769,754	14,037,550	6,298,547	7,739,003
New York, Susquehanna & W.	18,871,374	9,452,844	9,418,530	628,983	209,623	419,360
Oregon, P. & E.	914,674	....	914,674	16,501	....	16,501
Reader	43,400	38,400	5,000	2,595	2,400	195
St. Louis-San Francisco	366,029,383	123,921,168	242,108,215	11,893,833	3,001,773	8,892,060
St. Louis Southwestern	83,243,643	37,499,827	45,743,816	3,023,893	1,527,275	1,496,618
Savannah & Atl.	8,106,805	1,388,000	6,718,805	251,968	74,946	177,022
Spokane Int.	7,996,994	2,846,400	5,150,594	273,155	....	273,155
Western Pacific	95,698,299	33,969,125	61,729,174	3,718,009	494,202	3,223,807
Total	$4,300,521,178	$1,833,543,264	$2,466,977,914	$148,865,539	$ 40,113,369	$108,752,170

Percentage reduction of debt, 57·4%.
Percentage reduction of fixed charges, 73·1%.
Debt after reorganization includes $824,441,464 of income bonds equal to 45·0% of reduced debt.

STATEMENT "B"

RATIO OF FIXED CHARGES TO REVENUES

		Miles of Road Operated	Operating Revenues	Total Fixed Charges	Ratio of Fixed Charges to Operating Revenues 1939	1944
Pennsylvania	1939	10,270	$ 430,930,778	$ 79,595,750	18·47	
	1944	10,098	1,010,015,912	75,539,810		7·48
New York Central	1939	11,008	341,086,708	48,103,444	14·10	
	1944	10,746	714,963,385	46,187,801		6·46
Southern Pacific	1939	13,069	217,572,889	30,007,291	13·79	
	1944	12,595	628,223,517	24,660,432		3·93
Atchison, Topeka & Santa Fe	1939	13,443	160,039,967	11,056,699	6·91	
	1944	13,103	528,080,530	10,080,425		1·91
Union Pacific	1939	9,901	164,253,371	14,221,976	8·66	
	1944	9,781	506,590,966	15,139,681		2·99
Baltimore & Ohio	1939	6,307	161,030,252	20,421,656	12·68	
	1944	6,144	387,193,036	17,742,199		4·58
U. S. Class I Roads	1939	233,277	3,995,004,251	607,740,479	15·21	
	1944	228.624	9,435,446.955	566,400,041		6·50
Canadian Pacific	1939	17,176	152,148,993	25,506,522	16·76	
	1944	17,030	320,262,132	20,831,149		6·50
Canadian National	1939	23,668	203,820,187	53,488,165	26·24	
	1944	23,496	441,147,510	50,474,480		11·44
	*1944	*23,496*	*441,147,510*	*36,837,956*		*8·35*

*On basis of government accepting income bonds in repayment of advances for repatriation of securities.

Mr. NICHOLSON: I would like to ask President Vaughan about the statement made in evidence before this committee, made in 1935 which indicates that at that time there was a proposal for some sort of capital revision, and he said something to the effect that that did not go far enough, the interest on the funded debt made a considerable operating cost item for the railway, and so on. Again, in the evidence of the committee sitting in 1937, emphasis was placed on the fact that the management of the railroad was not satisfied with the financial arrangement as it then stood. I wonder if Mr. Vaughan would indicate what attempt has been made since 1935 to get some measure of relief, what recommendations have been made, and what he thinks now should be done in the way of getting some measure of relief?

Mr. VAUGHAN: There have been representations made at different times during the last few years, many representations have been made.

Mr. NICHOLSON: I wonder if the minister would indicate to us what they were.

Hon. Mr. CHEVRIER: I can confirm what the president has said, that representations have been made since I have been in office. They have been given consideration and they are still being considered.

Mr. NICHOLSON: I wonder if the minister would indicate his ideas as to what relief might be given. I note that President Vaughan, in the last paragraph of the statement which he read to the committee on opening this morning, states, very significantly I think, that it is unfair to place the Canadian National Railways forever in this position. We all recognize that the refinancing of the capital charges imposed on the railways was unreasonable. I am not suggesting that the public should suffer, but I think the burden should be placed where it belongs, on the government rather than on the railways.

Hon. Mr. CHEVRIER: All I can say in answer to your question, Mr. Nicholson, is that the matter is under careful consideration, but I can give you no assurance that a decision will be reached.

Mr. GIBSON: In the States where they made this capital rearrangement that loss of $2 billion had to be taken by the public generally?

Mr. VAUGHAN: The public paid for it, yes.

Mr. PICARD: When the reorganization took place in Canada, it was the government who took the loss, was it not?

Mr. VAUGHAN: Nobody was asked to take a loss. There was simply put into effect a change in the method of accounting. If we did not earn the interest on the government loans it would show as a loss in our accounts.

Mr. PICARD: But the way the matter stands now, the public own it?

Mr. VAUGHAN: I am not suggesting that it should be altered at all.

Hon. Mr. CHEVRIER: That is only in so far as the $400,000,000 repatriated from the United Kingdom is concerned.

Mr. PICARD: But if I understand the situation in the United States, their fixed charges have been reduced very much more than what you are suggesting be done here, and the loss on the revaluation has to be absorbed by the security holders, the public.

Mr. VAUGHAN: Yes.

Hon. Mr. CHEVRIER: Those lines went into liquidation.

Mr. PICARD: And at the time when the Canadian National Railways was formed it assumed the debts of the companies then taken over.

Mr. VAUGHAN: If the government of the day had not wished or desired to protect private capital, a number of the railways which now make up the Canadian National would have been forced into liquidation because of the fact that they could not meet the interest charges on their funded debt, and the result would have been that their funded debt would have been reduced to a point where they could earn interest charges on it.

Mr. PICARD: And they would then have taken the same step as is being taken now in the United States under the supervision of the Interstate Commerce Commission?

Mr. VAUGHAN: We feel now, in respect to this $400,000,000 of securities on which interest is still being paid, that the time has come for an adjustment.

Mr. PICARD: I agree with you, I think you should have a revision of your financial set-up.

Hon. Mr. CHEVRIER: This relates only to the $400,000,000.

Mr. PICARD: If I understand you correctly, there is no question of a conversion in which the public would assume the loss.

Hon. Mr. CHEVRIER: That is right.

Mr. PICARD: But had those roads which now make up the Canadian National continued to operate as private companies we would have been faced with the same situation as they have had in the United States where the public had to assume the loss. Had the government not guaranteed the investment of the public the same situation would have developed here as has developed over there during the last two years, and the public would have lost through the reorganization the same as they did there.

Mr. VAUGHAN: Or, take today; if we did not have the backing of the government we would have had to go through receiver's hands, not for the last five years, but before that, and the court or the liquidator, whoever looked after the matter, would have reduced our fixed charges to a figure that we could have earned interest on. We have never had that opportunity because it was considered that the credit of the government would be involved if we attempted to go through a form of receivership.

Mr. PICARD: Then, that $400,000,000 of charges there, while it may only be a book entry, still affects the ratio of fixed charges and income, and it would

be still higher—if that were taken over as you suggest—your fixed charges in relation to income would still be higher than the fixed charges for similar roads in the United States?

Mr. VAUGHAN: That is correct.

Mr. MUTCH: What you are saying in effect is, that what we are doing is taking our money out of one pocket and putting into another pocket. It is just an interchange between government accounts, the payment of the fixed charges on this $400,000,000.

Mr. VAUGHAN: Exactly. It does not make one particle of difference to the government in any shape, manner or form. Any time we earn money we pay it to the government; and if we do not earn it we cannot pay it anyway. We are merely asking for an adjustment in our financial set-up.

Mr. MUTCH: I am not so much concerned by what happens to the government; is it not in effect to change the position so far as the taxpayers are concerned, but under the present system the taxpayer is given the impression that funds are being lost where in reality there is no loss at all. It is made to appear as a loss by reason of the fact that it shows as a deficit whereas all we are doing really is to turn it over from one account to another.

Mr. PICARD: That should have been done when the railways were taken over.

Mr. MUTCH: Well, whether it should have been done or not, we are stuck with it now.

The ACTING CHAIRMAN: Your idea is that the government should have cancelled that debt of $400,000,000.

Hon. Mr. CHEVRIER: No.

Mr. VAUGHAN: No. We say to them, instead of taking demand notes from us on which we are obliged to pay 3·5 per cent interest, you accept income bonds on which interest would be paid when earned. Such an arrangement would not change the position of the government in one particular, or the position of the public, but it would give us a little better bookkeeping set-up and one which we should have.

Mr. HAZEN: This $400,000,000 securities to which you refer is the amount which was taken over from the United Kingdom residents since the outbreak of the war?

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: And you want to have that set out separately in the statement? Where does that appear?

Mr. VAUGHAN: That is on page 2 of the report.

Mr. JACKMAN: May I ask, Mr. President, if you had this $400,000,000 transferred to income bonds in place of demand notes to the government, would that complete your demand for capital readjustment; or would you come along next year or in the years to come for further readjustments?

Mr. VAUGHAN: I would not make any promises in that regard, Mr. Jackman, because we still would not be in a proper position even after that $400,000,000 was dealt with; our fixed charges would still be higher than they should be in comparison with other lines in so far as the ratio of fixed charges to gross revenue is concerned.

Mr. JACKMAN: You would be in exactly the same situation as were the 1937 directors in accepting benevolence, if you want to call it that.

Mr. VAUGHAN: Don't call that benevolence, we do not like that.

Mr. JACKMAN: I know you don't like it. But you still reserve the right to come back and ask for further revision in your capital structure; and the first difficult year that comes along would find you seeking adjustment with respect to your fixed charges.

Mr. VAUGHAN: We would say that we should have a proper set-up, one which would make our fixed charges not more than twenty-five per cent of what they are today. If you do that, if you would make our fixed charges not more than twenty-five per cent of what they are, we would not come back again. But this would be only a partial remedy of the situation.

Mr. JACKMAN: What relationship would the interest charge on the $400,-000,000 bear to the total fixed charges, approximately? Would that reduce them about twenty-five per cent of itself? What was the amount of the reduction made in 1937? I see that in your brief you make some mention of the amounts written off, and of interest charges on deficit, and also an amount which was spent on capital expenditures—how much was the total in 1937?

Mr. VAUGHAN: Mr. Cooper has those figures.

Mr. COOPER: There has been mentioned an amount of some $270,000,000 as having been transferred from the category of interest bearing debt to that of equity capital. That was the first adjustment. An then, in respect of loans by the government to the railway for deficits; which as the president said should not have been treated as loans; the amount involved was $373,000,000. Then there was the interest which had been accrued in favour of the government amounting to $530,000,000. There was the $270,000,000 which was transferred, from the category of debt to equity capital and $904,000,000 which was eliminated from the balance sheet.

Mr. JACKMAN: On page 5, of your statement, and I want to be clear on this, in respect of government loans for capital purposes, there was the capital revision act which changed the character of these loans. Is that included in the figure that you have given us?

Mr. COOPER: Yes, I have been speaking of that figure.

Mr. JACKMAN: May I ask the chairman, in his reference to the capital reorganizations of the railways in the United States, whether any of those railroads were unable to earn their fixed charges during recent years?

Mr. VAUGHAN: I cannot say as to that. Most of those railroads have been in receivership for six or seven, some of them for ten years, and they just came out of receivership during this last year. I believe that during the war years most of them probably have done fairly well, as nearly all railways have done. It must be remembered that during the war years, not only did operating incomes rise materially, but the character of the traffic varied so that our rates on such commodities were remunerative. And now, we will not have these commodities to move during peacetime and that is going to affect all railways. You probably have seen where the railroads in the United States, many of the larger railroads—take the Pennsylvania, for example, has been operating in the red during the first three months of this year—they have been grossing about a billion dollars a year.

Mr. JACKMAN: Did any of the Class one railroads in the United States go through receivership during the period you mentioned?

Mr. VAUGHAN: Yes, nearly all of them were class one roads. That includes practically all the big lines.

Mr. JACKMAN: What is the basis for classification of railroads over there?

Mr. COOPER: Any railway whose earnings are in excess of a million dollars gross per annum is class "I".

Mr. VAUGHAN: On the I. C. C. list—there is the Northwestern, the Great-western, the Soo Line, the Chicago-St. Paul-Milwaukee-Pacific; here is the Soo Line (which is owned by the Canadian Pacific Railway) before reorganization fixed charges were $8,680,000; after $54,860.

Mr. NICHOLSON: Before we go on with the printed report, if there is no other matter before the committee, I wonder if the president would care to make some statement on the present coal situation, and particularly with respect to the possibility of a suspension in whole or in part of rail services in Canada.

The ACTING CHAIRMAN: Is there any reference to that in the report.

Mr. NICHOLSON: Yes, Mr. Chairman, it is referred to in the statement presented to the committee.

Mr. VAUGHAN: In the United States, as you may have read, there was an order issued from Washington, I think it was on the 7th of May, that rail service be cut down 25 per cent, and another 25 per cent on the 15th of May. And now, as the result of the miners going back to work they have decided not to make the second cut of 25 per cent, but the original cut of 25 per cent remains until the coal emergency is over. We have had some discussion in Canada, and we had practically reached the conclusion that if they had to take drastic action of that kind in the United States it would only be fair that we take similar action in Canada.

Mr. HARKNESS: In connection with the coal supply I remember that you said last year that Alberta coal was only being used as far east as some place in Saskatchewan, whereas at one time it was used pretty well all the way east to the head of the lakes.

Mr. VAUGHAN: Yes.

Mr. HARKNESS: Have you moved that boundary back again as far as the supply of Alberta coal is concerned?

Mr. VAUGHAN: It is gradually being moved back.

Mr. HARKNESS: Where is it now.

Mr. VAUGHAN: We have been able to get considerably more coal from the mines in the west than during the war. We took every ton of Canadian coal we could get from Canadian mines that was suitable to burn in locomotives. We were better off in the west than we were in the east. Take for instance last year, it cost us over $2,000,000 to move to points east of Montreal American coal, down as far as Truro, Nova Scotia, a territory that was always before supplied by Nova Scotia coal; but there was such a demand for other purposes during the war that the Canadian National Railways was compelled to move American coal into territories which in normal times used Canadian coal. Unfortunately, that involved very high costs for us.

Mr. HARKNESS: How far east have you moved the boundary for Alberta coal now?

Mr. VAUGHAN: I cannot say offhand. I can say this, though, that we are taking very large quantities of Alberta coal.

Mr. WALTON: It is used as far east as the lake head, Fort William and Port Arthur.

Mr. HARKNESS: You are practically back to the pre-war situation?

Mr. WALTON: That is right.

Mr. HARKNESS: You anticipate you will be able to get sufficient coal from the Alberta mines to make it economical for you to extend the limit eastwards?

Mr. VAUGHAN: I doubt if we could extend its use very far east in the face of existing conditions.

Mr. HARKNESS: In the event that the coal strike had continued, would you have been able to get a sufficient supply of coal from Alberta, British Columbia and Saskatchewan to look after your needs and keep your railway running?

Mr. VAUGHAN: I feel reasonably certain that with the coal we can get from western and eastern Canada plus what we have in stock, we will be able to get through without difficulty.

Mr. MUTCH: Would you have been substantially cutting into the stock piles for the winter for the civilian population by having done that?

Mr. VAUGHAN: We have cut into a lot of stock piles. We have loaded a lot of coal into cars since this strike took place in the United States.

Mr. MUTCH: My question had to do not so much with the use of western coal, as to the extent to which you had to cut into civilian stock piles.

Mr. VAUGHAN: I do not think it will aggravate the situation unduly, during the last few months the situation has been very much improved.

Mr. HARKNESS: In the event of these United States coal mines coming back into full production, would you then consider using American coal in parts of Manitoba and in the lakehead area, and so on, or would you just continue to use western coal?

Mr. VAUGHAN: That would depend to a great extent on cost. We always give preference to Canadian coal where price and quality are equal. In fact, we go a little bit further than that in many cases. There is a large territory particularly in central Ontario in which it is much easier for us to obtain our requirements from the United States rather than from Canadian points, and I think that will always be the case. If there should be a policy adopted some time whereby the coal companies are placed in such a position that they can sell coal to us at competitive prices, that is another thing.

Mr. HARKNESS: Then there was no fixed policy on your part to continue to use Alberta coal east as far as the lakehead?

Mr. VAUGHAN: No. I think it is only fair to tell you so. I do not want to mislead this committee. It is fair for me to say that we have got to buy all our commodities at lowest cost to the railway, quality and other things being taken into account.

The ACTING CHAIRMAN: But in case of any preference, it would be given to Canadian coal?

Mr. VAUGHAN: Absolutely.

Mr. JACKMAN: This question of Alberta coal is a matter of great concern to Canada, particularly to the people of the west, because it relates to the development of national resources. I wonder if you can tell us how you find Alberta coal for burning in engines on the railways.

Mr. VAUGHAN: The Alberta coal from certain mines is satisfactory for locomotive use. As a rule it hasn't got the B.T.U's. that the better grades of American coal has, and it is a much finer coal. We would be delighted to use Canadian coal if we could buy it at a price.

Mr. JACKMAN: You have been using it for years, and you have found it economical to use it as far east as the lakehead.

Mr. VAUGHAN: Well, it must be remembered that we used it east to the lakehead during the time when the government provided a subvention.

Mr. JACKMAN: Of how much?

Mr. VAUGHAN: I don't remember just how much it was now, Mr. Jackman. They gave the mines a sufficient subvention to enable them to meet the competitive price. Likewise they gave the mines in Nova Scotia a subvention to

enable them to meet competitive prices. And as I said, our present concern is cost. We have to take cost into account, but if Canadian mines can supply the coal at a competitive price we will buy it from them.

Mr. JACKMAN: Have you any idea of how much that subvention works out, per ton? Perhaps you could tell the committee just where the break-even point is between Ontario and Nova Scotia, and also the break-even point in the west with respect to American coal and coal available from the western mines.

Mr. VAUGHAN: I haven't talked that over recently because during the war it has been a question of getting all the coal we could from every source we could, but prior to the war that took into account the subventions. At that time the break-even point for western coal was about the Manitoba-boundary.

Mr. NICHOLSON: Manitoba and Saskatchewan.

Mr. VAUGHAN: Yes, the Manitoba and Saskatchewan boundary—and the eastern coal, depending upon how the coal was moved, was at Montreal. If the coal was brought up by water from Montreal by the coal companies in their own boats they could meet the prices there.

Mr. HARKNESS: You are getting a subvention on Alberta coal that you use east of the Manitoba border?

Mr. VAUGHAN: No, sir, we as a railway have not been involved in the subventions; the coal companies apply for subventions in order to enable them to meet competitive prices; but that has not been involved during the war because we have had to take American coal into Saskatchewan because Canadian coal was not available. The subvention is a matter for the coal companies to arrange.

The ACTING CHAIRMAN: Now, gentlemen, it is 1 o'clock. Shall we meet at 4 o'clock? There are a lot of officers of the Canadian National Railways here, and I hope we can facilitate these officials as much as possible to get back to their work and make a little further profit in their year's work.

Mr. GIBSON: Get them back to work.

Hon. Mr. CHEVRIER: It has been the practice, may I say, to sit twice a day, and I am told sometimes three times a day, to allow the officers to get through with their work before this committee and get back to their offices.

The Committee adjourned to meet again at 4 p.m. this day.

The Committee resumed at 4.00 p.m.

The ACTING CHAIRMAN: Order, gentlemen, please.

Mr. JACKMAN: I think we were on the subject of coal when we adjourned at noon, and Mr. Vaughan had just given us the break-even point on the pre-war conditions for western and eastern sources of coal. I recall having read somewhere this morning that coal had to be hauled, imported coal, for use on the eastern division. May I ask him just how far we have to take coal east to supply the eastern division. You were using coal on the eastern division?

Mr. VAUGHAN: Up to the end of last year we were using Canadian coal at various points in the maritime provinces, but we we were unable to get sufficient to bring much of it as far west as Moncton. As a consequence of that we were compelled to take American coal down east as far as Truro, Nova Scotia.

Mr. JACKMAN: You could not use Nova Scotia coal west of Moncton?

Mr. VAUGHAN: Because we could not get sufficient of it.

Mr. JACKMAN: Because of insufficiency of supply; and your further statement was—what about Truro?

Mr. VAUGHAN: We took American coal all the way down to Truro, Nova Scotia.

Mr. JACKMAN: Did that condition prevail before the war?

Mr. VAUGHAN: No, no; it did not.

Mr. JACKMAN: Why can't we use Nova Scotia coal around Truro and on the eastern division?

Mr. VAUGHAN: For the reason that we have not been able to get it. We have taken every ton of Nova Scotia coal we could get but we could not get a sufficient amount to meet our requirements.

Mr. JACKMAN: Then, it is a matter of production, it is not primarily a question of cost.

Mr. VAUGHAN: No. Cost was not involved in that at all. There were two reasons, production had gone down, and all during the war consumption in the maritime provinces increased and there was a big demand for bunkering ships.

Mr. WALTON: Quite a bit of Nova Scotia coal also went to Newfoundland during the war.

Mr. JACKMAN: Was there as much coal produced in that area during the war as in pre-war days?

Mr. VAUGHAN: I think during the last two or three years of the war production was going down each year. During the war we took all the Canadian coal we could get from all sources.

Mr. JACKMAN: It seems to me most unfortunate that we should have to have imported American coal and carried it as far east as Truro.

Mr. VAUGHAN: We regretted very much the fact that we could not get Canadian coal because there was a tremendous expense to us involved in the movement of American coal moved down there. We figure that it cost us around $12.99 to get the American coal down to the maritime provinces against an average cost of—well, to put it this way, it cost us $4.29 more to haul it down there than we would have had to pay for Canadian coal.

Mr. NICHOLSON: $4—what was it?

Mr. VAUGHAN: $4.29 per ton. It cost us over $2,000,000 to move American coal to the maritime provinces last year; that is, our operating expenses were added to by that amount of money because we could not get sufficient Canadian coal to meet our requirements.

Mr. HARKNESS: Has that situation improved?

Mr. VAUGHAN: Yes.

Mr. HARKENSS: Production has increased?

Mr. VAUGHAN: Yes, and there is not the demand for bunker coal now.

Mr. MOORE: Some reference was made to-day to the use of oil in connection with locomotives, and I think the statement was made that the railway owned two oil wells in Alberta.

Mr. VAUGHAN: We have been operating some oil wells near Vermilion.

Mr. HARKNESS: Would it be profitable to the railways to operate their own coal mines in Alberta to supplement the production of private mines?

Mr. VAUGHAN: We do not believe we would be any better off mining coal ourselves. We would rather leave the production of coal to privately owned mines.

Mr. NICHOLSON: But you do own coal mines yourselves, do you not?

Mr. VAUGHAN: We own mines in the state of Ohio which came to the Canadian National through the Grand Trunk. They were purchased many years ago by the Grand Trunk Railway to protect their supply of American coal. We still operate those mines and last year they produced 1,300,000 tons of coal.

Mr. NICHOLSON: Your experience does not indicate that you would be warranted in going into the coal mining business?

Mr. VAUGHAN: We would prefer to stay out of the mining business if we can purchase sufficient coal to meet our railroad requirements.

Mr. HARKNESS: I think you said something to the effect that more coal could be produced in Alberta than you could use?

Mr. VAUGHAN: That is correct in normal times.

Mr. HARKNESS: So there is no reason for the railway going into the coal mining business.

Mr. VAUGHAN: No, that is correct. That applies also to eastern Canada.

The ACTING CHAIRMAN: Are there any other questions on coal?

Mr. JACKMAN: I suppose it is a fair inference then, Mr. Vaughan, that it would not pay the railways, or that one could not move maritime coal to points farther west under the subventions to the coal companies during the recent years. If you could not get enough coal, then it is not likely that a subvention would help.

Mr. VAUGHAN: I do not think the question of subventions is involved at all, certainly not during the war, because there was a ready market for every ton of Nova Scotia coal produced during the war, I think, without subventions. There may have been certain cases where subventions were necessary, but generally speaking there was certainly a market for every ton of eastern—Nova Scotia coal or New Brunswick coal—that could be produced.

Mr. JACKMAN: So the railways were not engaged in hauling Nova Scotia coal down to Montreal or places like that?

Mr. VAUGHAN: No.

Mr. JACKMAN: If there was coal you got it. You did not take any coal from the eastern mines and bring it up here to central points at the same time as you were hauling American coal down to the eastern divisions?

Mr. VAUGHAN: No, there was no cross-hauling at all.

The ACTING CHAIRMAN: All right, gentlemen, we will now take page 5, are there any questions on that?

Mr. HARKNESS: Mr. Chairman, I would like to refer to the third or fourth paragraph there:

> "Post-war projects were studied during the past year and plans were advanced for the improvement of the company's service to the public, particularly in regard to accelerated schedules and the provision of equipment designed for more economical operation and greater convenience and comfort for passengers."

And some place further on I noticed a number of new cars of various kinds had been provided for, but I did not notice that that included sleeping cars or anything along that line.

Mr. VAUGHAN: We have not ordered any sleeping cars as yet. In fact, we were unable until recently to get any priorities for passenger cars from the Department of Munitions and Supply. That does not apply now. We are having specifications prepared now for sleeping cars of the most modern design.

Mr. NICHOLSON: Could you give us an idea about the design?

Mr. Harkness: What I have is this, that the last few times I have travelled on the C.P.R. they have some very much improved sleeping cars and compartments which are really comfortable. I wondered if the C.N. had gone in for the same sort of thing.

Mr. Vaughan: We are planning on the most modern type of sleeping car available. We have conducted much research in connection with it, and when these cars are produced they will be the latest and most up to date cars. In the meantime we are rehabilitating a lot of our present equipment and modernizing it to some extent and redecorating it. The cars will be made as comfortable as possible.

Mr. Mutch: Is a good deal of that work being done on the western division?

Mr. Vaughan: Yes, some of it in our Winnipeg shops.

Mr. Harkness: Have you any of these new style sleeping cars in operation yet?

Mr. Vaughan: We have none of the Roomette or duplex types.

Mr. Harkness: How long will it be before you get any of these into operation?

Mr. Vaughan: I think it will be the best part of a year.

Mr. Harkness: I would think that the C.N. would suffer so far as attracting passengers in competition with the C.P.R. if they do not provide that type of service.

Mr. Vaughan: We are going to get the most modern type of car.

Hon. Mr. Chevrier: You have an order in for some at the present time, have you not?

Mr. Vaughan: Yes, for the most modern type of coaches. The car companies have orders from us now also for baggage cars and the combined baggage-express cars—there are thirty coaches, as well as mail and express cars and baggage cars on order.

Hon. Mr. Chevrier: And when will these be in operation?

Mr. Vaughan: This fall.

Mr. Picard: Last year you told the committee that you were investigating the possibility of obtaining new rolling stock and equipment; what has been done during the year.

Mr. Vaughan: We have developed it to the extent that we will soon have our specifications completed. Our men have spent considerable time with the railroad men of the United States, and with the car builders, developing the latest type of equipment.

Mr. Picard: In the United States they have already put many new type cars on the road, have they not?

Mr. Vaughan: To a certain extent they have a number of duplex cars and roomettes in operation.

Mr. Nicholson: Would Mr. Vaughan care to make a further statement with regard to post-war plans. Two or three years ago we had a rather extensive brief presented on that subject to the reconstruction committee. It has been over a year now since V-E day. Would President Vaughan care to make a statement as to what condition these plans would be in?

Mr. Vaughan: Those plans as they were presented at that time are still on paper. I think we outlined three different types of things to be done: one was works that were necessary and should be done; another was things that were on the border line; and others that would be useful but would not add anything to our net returns. We have not done anything on those plans as yet. Materials, as you know, are very scarce and very difficult to get. The housing programme

requires materials of all types; and there does not seem to be any need at the present time for spending money on post war projects. That may come in a few years, but it does not seem to be here yet.

Mr. NICHOLSON: How about the employment situation? I saw something somewhere in your report—over twenty thousand Canadian National employees who had been on service during the war and of that number there were seven thousand who were back.

Mr. VAUGHAN: There are a few more returned than that, I think, as I recall it, something like nine thousand have returned to service with us at the present time.

Mr. NICHOLSON: You said, a little less than half of those who had joined; does that mean that there were not enough jobs available for those men who came back and wanted to resume their employment?

Mr. VAUGHAN: There will be jobs for every man who joined the forces who was in our service before the war, to the extent that our schedules provide work. They may have to replace some of the temporary help that was taken on in the last two or three years. We have obliged ourselves to give every man who was in our service and who joined up for active service at least his old job, or as good a job as he had when he went away, and to improve it to the extent that he would have had promotions while he was away, always of course in accordance with our labour agreements.

Mr. NICHOLSON: But less than half of those who joined up are now working with you?

Mr. VAUGHAN: They are gradually coming back. Many of these men, of course, have money in their pockets and don't want to go to work immediately they come back, but they are gradually coming back. There are still some to come back.

Mr. PICARD: Can it be said that the passenger service is now back to its pre-war standard? I mean during the war the inevitable results of the pressure on the system meant lowering of standards. Can it be said that now your line is fully back to pre-war standards in respect to passenger facilities?

Mr. VAUGHAN: Not quite. For instance, on our morning train between Toronto and Montreal we have no parlour car. We had them on those trains before the war, but that equipment is being rehabilitated in our shops and will before long be back in service again.

The ACTING CHAIRMAN: I noticed that the train which leaves Montreal for Ottawa at 4.30 does not carry a diner.

Mr. WALTON: Not at the present time.

Mr. JACKMAN: Do you build many of your own cars and locomotives?

Mr. VAUGHAN: We do not usually build new cars. Our locomotives, passenger cars and freight cars generally are built by commercial shops. We do build a few refrigerator cars in our Winnipeg shops from time to time.

Mr. JACKMAN: Do you have any car-building or locomotive building plants?

Mr. VAUGHAN: We have facilities where we could build cars and locomotives if we had the space in them. These facilities are fully occupied with the repairing of our equipment rather than with the building of new equipment.

Hon. Mr. CHEVRIER: You do all your own repairs, do you not?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: Are there any more questions on page 5?

Mr. MOORE: Yes. There is that reference in the fifth paragraph as to competition between the railway and highway services presenting a problem of growing importance. The member for Skeena asked me to ask you a question in

connection with that. He tells me that during the war years a highway was constructed by the Department of Reconstruction to provide a service to Vancouver. Since that time the highway has been closed off and representations have been made by various bodies in British Columbia to have this route opened up, but their effort has not met with any success so far.

Mr. VAUGHAN: That matter is now under negotiation with the British Columbia government. A portion of the highway runs on the right of way of the railway. We had an agreement with the Dominion government that it was to be used only for war purposes and that they would protect us against accidents by the users of the highway. The war is over now and our agreement with the Dominion has expired. One of the British Columbia cabinet ministers came to see me a few days ago and we explained to him our views on the further use of the highway on our right of way. I am hopeful that we will be able to make a satisfactory arrangement with the provincial government in regard to the matter.

Mr. PICARD: In connection with the coal shortage mentioned this morning, of the possibility of action along certain lines, has the company any definite plan on that, or is it just in the exploratory stages?

Mr. VAUGHAN: We have no definite plan as yet, Mr. Picard. We have the situation lined up so that we could very quickly formulate plans if we have to.

Mr. PICARD: Would there be any provision made for the public in respect to local train service on the main line east between Levis and Rivière du Loup? Supposing one of your advisers was to recommend that some of the local train services on that line be discontinued, would any consideration be given to the people of the district?

Mr. VAUGHAN: If we find it necessary to do anything of that kind, you may depend upon it that it would be done with the least inconvenience possible to the public. If we had to take trains off, we would take off some of the least important trains.

Mr. PICARD: Yes. But I have in mind the train service between Levis and points east in Quebec—for instance, Rivière du Loup. A lot of people are complaining nowadays that the maritime express does not stop except at two or three points along the route, and they say that if any train was removed in that district, any of the local trains, it would cause them great inconvenience and hardship because of the fact that the through trains do not stop at local points. No doubt it could be arranged, that service could be given by the maritime express and trains of that type by arranging for them to stop at the stations serving the district. It might take the express fifteen or twenty minutes longer to make the run between Rivière du Loup and Levis, but it would give a better service than is available at the present time.

Mr. VAUGHAN: We will at all times try to see that the various localities have an adequate train service for the time being, and they could have resource to a plan such as you suggest. If we took off a local train we would have to have the through trains provide a service, but of course our friends coming from the east would not like the delay.

Mr. JACKMAN: In connection with the $24,000,000 surplus from operations last year which your report shows was turned over to the federal treasury what kind of bookkeeping credit do you get for that? Do you get a reduction in the debt you owe the government?

Mr COOPER: Yes.

Mr. JACKMAN: On open account, or where does it show?

Mr. COOPER: On the balance sheet, on the right hand side, Dominion of Canada loans, $674,000,000. That amount would be reduced by the amount of the surplus.

Mr. JACKMAN: So when you pay this operating surplus or profit to the government it really goes to reduce a loan which they made to you in some former year?

Mr. COOPER: That is so.

Mr. VAUGHAN: That is correct.

Mr. HARKNESS: Just before that the interest on the funded debt owed to the public had decreased by something over $2,000,000, and the increased interest on government loans was only about $300,000. Was that due to a refunding operation financed by the government?

Mr. COOPER: There are two reasons. One is the reduction of debt through surplus, and the other is refunding at a lower interest rate.

Mr. HARKNESS: What was the first one?

Mr. COOPER: The first one is the reduction in the debt by the amount of the surplus earnings, and the second one is the refunding of debt at a lower interest rate. Those two things in combination account for the reduction in the fixed charges.

Mr. JACKMAN: In connection with refunding all such operations have been carried on with the government or have you endeavoured to refund any bonds held by the public?

Mr. COOPER: In recent years this has all been with the government.

Mr. JACKMAN: Have you bonds outstanding with the public—I have not checked the list at the back—in connection with which you have some refunding operations to put through as soon as you are permitted?

Mr. VAUGHAN: Yes, we have some. You have a list of those maturities; for instance, there is one big loan coming due during the year which will be refunded at a much lower rate of interest.

Mr. JACKMAN: What page is that?

Mr. VAUGHAN: Mr. Cooper will give you those.

Mr. COOPER: Look at the annual report, the next to the last item in the government guarantees is $2\frac{1}{4}$ per cent guaranteed bonds due on January 15, 1946, $15,000,000.

Mr. JACKMAN: They are out now?

Mr. COOPER: They were refunded by a government loan at $2\frac{1}{8}$ per cent.

Mr. JACKMAN: What maturity?

Mr. VAUGHAN: Ten years.

Mr. JACKMAN: Ten years at $2\frac{1}{8}$?

Mr. COOPER: Seven years.

Mr. VAUGHAN: Seven years for those retired, but I think it has been supplanted by a loan for ten years.

Mr. COOPER: Oh yes, I beg your pardon. Then, further up you see $6\frac{1}{2}$ per cent sinking fund debenture bonds issued by the Canadian Northern in 1921 which fall due on July 1, 1946. The total amount outstanding is $23,752,000. Arrangements have been made with the dominion government to take up that issue by a loan from the dominion, and we expect to get it at 2 per cent payable in United States funds.

Mr. JACKMAN: Is it United States now?

Mr. COOPER: Yes.

Mr. JACKMAN: And the maturity?

Mr. COOPER: July 1, 1946.

Hon. Mr. CHEVRIER: That will represent an annual saving of how much?

Mr. COOPER: There will be an annual saving of $1,068,000.

Mr. JACKMAN: The new maturity is what, Mr. Cooper?

Mr. COOPER: I think it is a ten-year loan.

Mr. JACKMAN: Of course, in both those cases maturity was almost upon you. You had to do something anyway, but are there no bonds with higher coupon rates that you can call and refund?

Mr. VAUGHAN: We call all the bonds we can. There are some bonds, of course, that are issued unfortunately without any callable features to them, but when they are callable from certain dates, we take advantage as soon as possible of the callable privilege.

Mr. COOPER: There are no further bonds callable until 1948.

Mr. JACKMAN: For instance, these 5 per cent thirty-year guaranteed bonds of 1954, $50,000,000, you cannot call those?

Mr. COOPER: They are callable in 1950 or thereafter. We cannot call them before 1950. You can call them on November 1, 1950 at 105.

Mr. JACKMAN: Most of your refinancing seems to be done by the government now, not only on capital account but also on equipment loans. During the war years I remember that I questioned whether or not you might not be better off if rather than having to do your financing through the government, which was required at that time owing to the victory loan demands, you were allowed to operate in the ordinary markets?

Mr. COOPER: Not necessarily. There is quite a possibility that we shall soon go into the market.

Mr. PICARD: I may not have followed this very well, but what about those 6½ per cent bonds in 1946? Are those the ones you mentioned?

Mr. COOPER: That is the one we were speaking of.

Mr. PICARD: That is the one you mentioned a minute ago.

Mr. JACKMAN: Do you feel that the system is getting as low rates from the government on rolling stock equipment bonds as it might get somewhere else?

Mr. VAUGHAN: There are still some 3½ per cent equipment issues out. We are now negotiating with the government to make a loan which would take care of those at a lower rate of interest. We have not completed our plans in that connection yet, but the government have expressed willingness that we should do that.

Mr. JACKMAN: From the standpoint of operating the system would you not feel better and freer if you did your financing through ordinary channels rather than through the government?

Mr. VAUGHAN: There are two ways to look at that. After all, in some respects we think it would be better if the government held all securities of the Canadian National Railways. At other times we think they charge us too high a rate of interest and that we could go out on the market and get money at a lower rate. Taking it by and large I do not think it is a bad thing for our financing to be done with the government, but we are considering making a public issue at an early date.

Mr. JACKMAN: It seems to me that during recent years the government have rather overcharged you, and for purposes of comparison with other systems it would be better if you were on your own feet.

Mr. VAUGHAN: The highest interest is 3½ per cent charged on the vested securities.

Mr. JACKMAN: What are the C.P.R. and other first class railroads borrowing at at the present time?

Mr. VAUGHAN: I have not seen any of the C.P.R. borrowings recently. Some of the American railroads are selling equipment issues at about 1⅝ per cent

and $1\frac{3}{4}$ per cent. Some of them are making long term loans, such as the Southern Pacific. I saw where they and the Union Pacific made a 30-year loan at about $2\frac{1}{2}$ per cent the other day.

Mr. JACKMAN: Do you feel that apart from equipment certificates that The C.N.R. on its showing could borrow in the public market?

Mr. VAUGHAN: I think we could borrow in the open market at the present time perhaps at a little lower rate than we pay the government. How long that condition will continue I do not know.

Hon. Mr. CHEVRIER: On some of the principal payments on equipment and hire-purchase agreements the interest is as low as 2 per cent, is it?

Mr. VAUGHAN: We had an equipment issue last year at $2\frac{3}{8}$ per cent with the dominion government on equipments. That is the lowest rate we have with the dominion government. It runs from $3\frac{1}{2}$ per cent down to $2\frac{3}{8}$, $3\frac{1}{2}$ per cent in 1940 for $8,000,000; $3\frac{1}{2}$ per cent in 1941 for $16,500,000.

Mr. NICHOLSON: That is about 1 per cent more than the American railroads you mentioned are paying?

Mr. VAUGHAN: Yes.

Mr. COOPER: I think it would interest Mr. Jackman to know that taking into account the coupon rate, the exchange rate, and the proportion of discount suffered at the time of issue, our average interest rate to the public is 4·69, and to the government is 3·14.

Mr. JACKMAN: That is taking in your equipment certificates too?

Mr. COOPER: Yes.

Mr. JACKMAN: They are not quite the same type of security, of course, are they?

Mr. COOPER. No.

Hon. Mr. CHEVRIER: What is that again to the public?

Mr. COOPER: 4·69. On the whole debt, government and public, the average rate is 3·85.

Mr. JACKMAN: The figures are not quite comparable because if the government were to hold a great many equipment certificates which obtain a low rate in any market it would throw the balance out.

Mr. COOPER: Yes. It is just as a matter of information that I gave the rates. It seems to me that a 4·69 rate of interest today is a very high rate. We are stuck with it, and there we are.

Mr. PICARD: You mean you are stuck with it because there is no reconversion?

Mr. COOPER: There is no provision to call or redeem them before a certain fixed date.

Mr. JACKMAN: Do you happen to know what the average rate of your competitor is?

Mr. COOPER: No, but I could work it out, Mr. Jackman.

Mr. JACKMAN: Never mind unless you want to.

The ACTING CHAIRMAN: Are there any other questions on page 5?

Mr. JACKMAN: I am rather interested in Mr. Vaughan's statement in view of the suggestions he made in the morning session that the fixed charges were rather heavy on the railway. Yes we find that the financial record in his opinion and the outlook are sufficient to allow him to do his financing, not on equipment certificates but on the general credit and the mortgage credit of the railway, by getting money from the public at a fair price.

Mr. VAUGHAN: The public realizes, of course, that the government is behind the Canadian National Railways.

Mr. JACKMAN: You are not speaking of guaranteed bonds, are you?

Mr. VAUGHAN: Well, bonds that practically carry the government guarantee, implied if not otherwise.

Mr. PICARD: Do they not all except equipment issues carry a government guarantee?

Mr. COOPER: No.

Mr. PICARD: The ones outstanding on page 21.

Mr. COOPER: The first group there, $525,000,000, are all guaranteed by the dominion. Then you have the guarantees by the provinces and the unguaranteed issues. Out of a total of $573,000,000 $525,000,000 is directly guaranteed by the dominion.

Mr. PICARD: That is what I thought. A much larger proportion of it is guaranteed.

Mr. COOPER: Yes.

The ACTING CHAIRMAN: Gentlemen, will we turn now to page 6?

Mr. JACKMAN: At the bottom of page 5 you speak about operating revenues and expenditures. There was a news item giving the combined rail results for the first quarter of this year, and as I calculate it the combined net earnings of the C.P.R. are down 29 per cent this year in the first quarter and the C.N.R. are down 49 per cent. Why should that be the case in the first quarter?

Mr. COOPER: If you are speaking of the published figures of the Canadian Pacific of course you have to figure they have got taxes and other items in there. The figures are not comparable with ours.

Mr. JACKMAN: These are the combined net earnings. It talks about net operating earnings at the beginning. I will read this. The heading is "Combined Rail Net Drops." I think it is from the *Gazette*:

> During the first quarter of this year combined net operating earnings of the Canadian Pacific and Canadian National Railways showed a drop of $9,040,000, or 43·7 per cent compared to a year ago.

Then at the bottom of the article it refers to combined net earnings. I do not know whether that is the same. Yes, it is the same because the total is the same, $9,040,000. Therefore, that is before these itmes of taxation which are peculiar to the C.P.R. are taken into account. The two railways are down $9,040,000 in the first quarter. The Canadian Pacific is down $1,739,000 and the Canadian National is down $7,301,000. Comparing that with the corresponding quarter for the previous year it indicates that the C.P.R. is down 29 per cent and the C.N.R. is down 49 per cent.

Mr. COOPER: There is not any doubt that for the first quarter the earnings of the Canadian Pacific have stood up better than ours have. However, I noticed that in the month of April our decrease in gross was 12 per cent and theirs was 14·6 per cent.

Mr. JACKMAN: In gross. Of course, that is gross earnings after expenses.

Mr. COOPER: No, gross.

Mr. JACKMAN: What are the peculiar conditions that bring about a situation like that?

Mr. VAUGHAN: In the first place, of course, our earnings were down to a greater extent, and that means that we would not have the same reduction in expenses that they would have. One of the important reasons for that is, of course, that we have so much international business, so much more than they have. That has greatly affected both our gross and our net earning position.

There have been strikes in the United States at various places, in steel mills and automobile companies. That all affects our traffic much more than it does the Canadian Pacific Railway.

Mr. JACKMAN: You have a larger percentage of operations in the United States?

Mr. VAUGHAN: Yes, part of the Central Vermont and Grand Trunk Western are included in our figures, and there has been a very heavy drop in earnings both on the Grand Trunk Western and on the Central Vermont railway.

Mr. JACKMAN: I suppose that the Soo line comes into the C.P.R.?

Mr. VAUGHAN: No, they do not come into the C.P.R. figures at all.

Mr. COOPER: Their Soo line comes in on a dividend basis, Mr. Jackman.

Mr. VAUGHAN: They publish a separate statement for the American lines, the Soo line, the Wisconsin Central, the Duluth, South Shore and Atlantic. They do not come into the monthly figures. They would only come in if they declared a dividend.

Mr. JACKMAN: Yours is a consolidated picture and theirs is not?

Mr. COOPER: That is right. Theirs is a parent company set-up and ours is consolidated.

Mr. JACKMAN: On the overall picture, even though there may be some explanatory reason the difference is very great.

Mr. VAUGHAN: It is hardly fair to take three months as a basis because one company may start its track laying and its tie renewals much earlier in the season than the other company. There are a lot of conditions involved that make it rather difficult to make a comparison in only three months.

The ACTING CHAIRMAN: Are you ready for page 6, gentlemen?

Mr. JACKMAN: What I am really trying to get at is, is there anything inherent in the C.N.R. condition which would spell bad times ahead for us with a general lowering of the volume of traffic as compared with the C.P.R.? After all these figures come before interest charges, for instance.

Mr. VAUGHAN: I think the two railways in Canada will be affected very largely in the same way except, as I say, that we will be more affected by the international situation than they are. But the earnings of the two railways will be down pretty much in proportion in Canada. One year we may be down some, another year they may be down some. Included in our expenses for the first three months is a very substantial wage increase on our United States lines, which I think cost us about $750,000. An award was made in the States retroactive to the first of January, and that comes into the first three months. So that it is very difficult to make a comparison of that kind. I see the point you are trying to make, why should we have a greater decline in net earnings than they have in the first three months.

Mr. JACKMAN: And in operations.

Mr. VAUGHAN: Yes, and in operations; but, as I say, I do not think it is fair—for instance, our gross was down for the period of $8,484,000, and their gross was down for the same period only $2,437,000.

Mr. JACKMAN: That is for four months?

Mr. VAUGHAN: No that is for the first three months.

Mr. PICARD: Would the American lines be the only reason for that discrepancy?

Mr. VAUGHAN: That is one of the reasons, not the only reason.

Mr. PICARD: When you mentioned that three months was not a fair basis, do you figure that at the end of the year the difference will not be so great between the two railways?

Mr. VAUGHAN: I think the C.P.R. drop in gross and net, and ours, will be pretty much on the same basis by the end of the year.

Mr. PICARD: Do you think we should take the yearly picture?

Mr. VAUGHAN: Yes. That is by the fact that gross earnings show quite a difference. Their earnings did not show the same reduction as ours from the first of January to the end of April, but their gross earnings in April dropped considerably more than ours.

Mr. PICARD: So that you think it should be taken on the basis of the whole period, the whole year, and that they will be more or less along the same line?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Have you any figures showing what proportion of the railway earnings is in Canada and what is in the States.

Mr. VAUGHAN: No. We can figure that out for you.

Mr. COOPER: The respective mileages are given in the report?

Mr. VAUGHAN: If you will refer to page 31, you will see that we had 21,695 miles of line operating in Canada and 1,839 in the United States. These figures are very interesting, Mr. Jackman. In the year 1945 our earnings in the United States were $49,873,404, and in Canada $383,899,990.

Mr. JACKMAN: It runs about the same basis, approximately nine per cent.

Mr. VAUGHAN: Yes, pretty much. Our reduction in net earnings on Canadian lines for the first four months was 8·8 per cent, and on the United States lines it was 13·9 per cent.

Mr. JACKMAN: But the profit there, the five per cent in relation to the ten per cent of the total—that is only two per cent—that is not going to affect the picture a very great deal.

Mr. VAUGHAN: I do not know the exact amount, but it is considerable.

The ACTING CHAIRMAN: Are you ready for page 6?

Mr. JACKMAN: May I just ask this. We have to compare results with something. The C.P.R. is the easiest and the most natural comparison for us to take. The lines which we have in the border states, taking the long and the short of it, are just as good lines as our Canadian lines. Then, too, the general situation in the United States and Canada is essentially similar, conditions which obtain there obtain here, so they would have relatively little affect on the general results. I can see your point in a case where you have a big wage award to make up; but there is not much reason to say that because the C.N. accounts are on a consolidated basis and the C.P.R. are on an individual company basis that comparisons cannot be made on the quarterly earnings for the respective companies.

Mr. VAUGHAN: It might be difficult to do that because the Soo Line, as you know, has not been doing very well for a great many years. I do not know what the C.P.R. picture would be if they include the result of the Soo Line in their consolidated picture.

Mr. COOPER: Would it not be fair to compare the full year 1945?

Mr. JACKMAN: Except that I wanted to see what effect the falling off in business is having on the two railways. It seems to me that it is hitting the C.N. harder than it is the C.P.R.

Mr. VAUGHAN: I didn't catch that.

Mr. JACKMAN: Mr. Cooper was suggesting that we take the 1945 results, that that would afford a more adequate comparison. The only reason for bringing in the quarterly report was that I wanted to see what the falling off in business was doing by way of assets on the activities of the two roads.

Mr. Vaughan: When we refer to the reduction on the American lines, it must be borne in mind that that carries through to our Canadian lines, because a good deal of the traffic originates on the Grand Trunk Western, is carried through Canada, and taken them back to the states, either at Buffalo, or perhaps via the Central Vermont railway to New England, so that our through business in Canada is very much affected by any recession of business in the States. I think about the only way to figure a comparison between the C.P.R. and ourselves would be to take the operating ratio for 1945,—that is the net after deducting expenses. Our ratio was 81·9, and theirs was 81·3—very little between them.

Mr. Jackman: Are those figures just for the railways, or do they include hotels, steamships and so on.

Mr. Vaughan: That is just for the railways. So it shows that our operating ratios were very close together.

The Acting Chairman: Shall we turn to page six now, please?

Mr. Jackman: May I refer to the second last paragraph on that page:—

> The increased cost of moving traffic, not compensated by additional revenue, was related to the considerable empty movement of passenger equipment to the seaboard for troop repatriation, etc.

I presume that condition has now come to an end, and as a result you anticipate better returns?

Mr. Vaughan: I think that is a fair statement. We are still moving home the wives and children of those men. It is a much easier proposition from our standpoint to move troops overseas than to bring them back. When we were moving troops down to the seaboard, we delivered them to the vessels and we were through with them. Now, when the troops are coming home we have to gather up empty equipment from all over the system and move it down there. We are given specific dates for the arrival of boats and are expected to get our equipment down there on those dates, and then we would find that the boats might be anywhere from a day to two, three, four or five days late on account of weather or other conditions, with the result that we had that equipment tied up in Halifax during that time; That is very costly for the Canadian National Railways, and also I presume for the Canadian Pacific Railway.

Mr. Mutch: Did you deadhead many cars back when you were taking troops down?

Mr. Vaughan: Not to the same extent.

Mr. Mutch: Going down they didn't have as good equipment as coming back?

The Acting Chairman: That is true.

Mr. Harkness: Now that you have got rid of the extra expense incidental to the movement of troops, how much of saving do you anticipate making?

Mr. Vaughan: It is very difficult to estimate that in dollars and cents, but we will have some saving, because there was a very heavy deadhead movement of equipment. With these men coming back from overseas, we might have a couple of trains for Vancouver, one for Calgary, one for Edmonton, one for Winnipeg, and these trains would have to be hurried deadhead to Halifax to meet another body of troops, and then they might have to wait there for several days pending the arrival of a ship, so that I think from now on much deadheading will be avoided.

Mr. Harkness: Will that reduced cost of moving traffic offset loss in traffic?

Mr. Vaughan: I do not think so, no.

Mr. WALTON: This movement of dependents is far from over, that will continue for some months.

Mr. MUTCH: And another factor which enters into it will be the further use of equipment which has been tied up in the way you say waiting for the arrival of boats and on troop movements coming back, and all that prevented you from using that equipment for passengers whom you could have hauled had you had the equipment where you could use it.

Mr. WALTON: That is correct.

Mr. JACKMAN: You referred to the shortages of labour and material. Are you able to say now how much of your accumulated deferred maintenance reserve of $69,000,000 you will be using? Are you going to use any of that this year?

Mr. VAUGHAN: We expect to use some of that this year, yes; to the extent that we undertake what we may consider to be deferred maintenance. I am not able at the present time to say when that will be. We will have to wait until the end of the year until we see just what work we have done on deferred maintenance.

Mr. JACKMAN: I suppose it would be used to cushion to some extent, depending on the results?

Mr. VAUGHAN: Well, we put it aside for a purpose.

Mr. JACKMAN: If you do not need it, you will not use it?

Mr. VAUGHAN: If we do not need it, we will not use it.

Mr. PICARD: Are you talking about deferred maintenance now?

Mr. JACKMAN: Yes, the item of $39,000,000 there in the balance sheet. It is quite likely that it would have a cushioning effect on any decline in earnings should they come about—that will be done by all railways I suppose, the use of such a reserve in that way?

Mr. VAUGHAN: It is not our intention to use it for that purpose. If we find that we can get the materials and the men and there is something which we consider deferred maintenance which requires to be done, that fund will be used for that purpose, the particular money that we spend on deferred maintenance will come out of that fund, but general expenses will not come out of it.

Mr. MUTCH: Some part of that fund will be available to carry on the rehabilitation work in your own shops?

Mr. VAUGHAN: Exactly.

Mr. MUTCH: And to maintain the level of employment, is that being used to any extent that way yet?

Mr. VAUGHAN: There has been some already used that way. We have an unusually large number of men employed in our shops getting our equipment into shape, rehabilitating it. A certain amount of that expenditure will come out of the deferred maintenance fund.

Mr. MUTCH: I understand that the fund was created for that purpose, to raise the level of standard rolling stock and at the same time to cushion the employment situation by maintaining the level of employment to do the carrying out of certain kinds of deferred maintenance.

Mr. VAUGHAN: That is correct.

Mr. WALTON: We have had to proceed somewhat slowly on that so far because the material situation was such that we could not get the materials with which to keep all labour employed.

Mr. Mutch: Would it be fair then to say, Mr. Walton, that in so far as there has been a let down on that point is concerned it has been due principally to a shortage of materials?

Mr. Walton: And to a lack of traffic at line points. There may have been some confusion in regard to the level of employment, because while we are trying to keep full employment going in the repair shops, what I refer to as the line points, the roundhouses and repair tracks, the situation there must be regulated in respect to the amount of business that is moving, and if traffic drops away we cannot use as many men in our roundhouses and on our repair tracks as we could if higher level of traffic was being maintained.

Mr. Mutch: But you are repairing just as many box cars and things of that kind?

Mr. Walton: We have been able to increase the output to some extent.

Mr. Picard: And your rehabilitation work on rolling stock would be an appropriate charge to regular maintenance and deferred maintenance. What proportion of the work you are now doing would you consider to be a proper charge under deferred maintenance, the work which should have been done, but which was put off on account of the war?

Mr. Vaughan: That would be difficult to figure out until the year is over. I may say that Mr. Cooper has a definite formula worked out for that. We have charged a little up to deferred maintenance so far this year.

Mr. Cooper: We have only used deferred maintenance reserves on equipment so far, not on maintenance of way or structures. In computing how much we should charge to the deferred maintenance reserve we figured that 57 per cent of maintenance of equipment expense varies with the traffic. We have taken the 1945 maintenance of equipment expense and we have equated it by the decrease in traffic in 1946 as against 1945. In that way we arrived at what the maintenance of equipment expense should have been in 1946 allowing for the decrease in traffic, and to the extent that figure is exceeded by the actual expenditures we have charged the excess figure to the deferred maintenance reserve.

Mr. Jackman: So that you actually have a fixed formula for it.

Mr. Cooper: Definitely, and I may say that this formula for measuring the variation of the expense with traffic is not something that we have pulled out of the air, it is the formula adopted by the engineering section of the American Railway Association. We have good authority for it.

Mr. Jackman: I notice in the C.P.R. balance sheet that they show $35,200,000, against your $39,000,000 maintenance reserve.

Mr. Cooper: Under that heading they took up $5.250,000 for deferred maintenance in 1945 and we took up $5,000,000. They took up a little more than we did in 1945.

Mr. Picard: Do you include the cost of maintaining the right of way, the heavier traffic you put in during the war, against the charge of deferred maintenance, rather than as an item of regular maintenance on the road.

Mr. Cooper: It will be, but so far we have not included anything for maintenance of tracks as a charge against deferred maintenance.

Mr. Picard: You have not used any of it that way?

Mr. Cooper: No, we have not used any of the reserve for maintenance of way.

Mr. Picard: But it could be done, you could use it in that way, putting your road in good shape?

Mr. Cooper: Yes, and we expect to use some of it in 1946.

Mr. JACKMAN: Being a public company the C.N. is not subject to taxation of its surplus. Do you know whether or not this $35,200,000 the C.P.R. set up was taxed, was tax paid on that or were they allowed to set it up as a deferred maintenance fund without tax?

Mr. COOPER: That is a question, gentlemen, that I would not wish to answer. I do not think I should attempt to answer anything pertaining to the make-up of the accounts of the Canadian Pacific Railway.

Mr. JACKMAN: We are, of course, trying to make comparisons, and it is only fair that we should keep matters of that kind in mind in making our comparisons, particularly where one of these railways is government owned and pays no taxes and where the other one has to pay taxes.

Mr. COOPER: I can only say this, that had the Canadian Pacific been in the United States they would not have been permitted to take as a deduction for tax purposes charges to operating expense to create a maintenance reserve.

The ACTING CHAIRMAN: And similarly the C.N.?

Mr. COOPER: Yes.

The ACTING CHAIRMAN: Are there any other questions on page 6, gentlemen?

Mr. MOORE: Yes. In the last paragraph it says that the wages paid by the C.N.R. increased in 1945 over 1939 by some $43,000,000. I want to know if there was any difference in the number of employees in 1939 as compared to 1945, and if that accounts for the increase.

Mr. VAUGHAN: We had a great many more employees in 1945 than we had in 1939. Mr. Cooper might explain that for you.

Mr. COOPER: Yes. The amount has nothing to do with additional employees. It is an increase due only to the higher wage rates.

In 1939 we had 78,000 employees. In 1945 we had 105,000 employees, 27,000 more. Now, no portion of the $43,000,000 is due to the additional number. What we did was to take the 1945 number of hours worked and figure what it would have been had we been paying the 1939 hourly rate, and that deducted from the actual wages paid amounted to $43,000,000.

The ACTING CHAIRMAN: Shall we take page 7?

Mr. MOORE: I would like to ask one more question, please. I have made several trips across Canada and it seems to me that on both the C.P.R. and C.N.R. that the porters had an extremely difficult job to perform. Have any complaints been made about the working conditions of these men, specially with respect to hours of work? They work very long hours.

Mr. VAUGHAN: Their hours of labour are all covered in the schedule. If they work overtime they get paid for it. We have not had any complaints recently from the men as to conditions.

Mr. WALTON: I think that is the only answer we can make, sir; the hours and the wages and the working conditions are all subject to the wage agreement between the porters and their duly accredited representatives and the railway, just as in the case of other departments of the railways.

Mr. MOORE: They have a union of their own?

Mr. WALTON: Oh, yes.

The ACTING CHAIRMAN: Page 7, gentlemen.

Mr. JACKMAN: In connection with that very arresting charge showing the increase of the various commodities used in one of the railways. I suppose that if we had not taken the 1939 price level, say we had taken the price level for October 1941, the day on which the price fixture came into effect, the line if anything would be steeper, which would seem to indicate the price ceiling,—of course

you are not responsible for them—has been shot pretty well through with holes—49·4 per cent, 47·3 per cent—and steel 12 per cent. You had price ceilings on during that period, and your wage rates were stabilized.

Mr. VAUGHAN: Except where the labour board granted very substantial increases in wages.

Mr. JACKMAN: That is labour, but you also had an increase in the volume of traffic, yet there is a decrease shown there.

Mr. COOPER: Due to the change in traffic characteristics the rate per ton mile decreased in 1945. Military traffic also had a bearing.

Mr. JACKMAN: As a matter of fact, you received less for carrying more.

Mr. VAUGHAN: Less for carrying a ton of freight one mile.

Mr. NICHOLSON: Where do you get those figures?

Mr. COOPER: They are shown there; the reduction in average revenue rates per ton mile and per passenger mile are equivalent to a reduction in operating revenue of $10,742,000.

The ACTING CHAIRMAN: Are there any more questions on page 7? If not, we will turn to page 8.

Mr. JACKMAN: Just one thing in connection with the line on page 7, where you mention $24,756,130; on what capital investment, or equity of the government, is that a return?

Mr. COOPER: That, Mr. Jackman, is shown on page 14. The government is there shown to have an equity account of $777,000,000.

Mr. JACKMAN: And in effect that is a return of?

Mr. COOPER: A return of better than three per cent on the amount.

Mr. JACKMAN: In fact that money simply went to the government to reduce that loan.

Mr. COOPER: Yes.

Mr. PICARD: That is what you say in the statement at the bottom of the page there:

> "Net income available for payment of interest was $71,084,272; approximately 3·5 per cent earned on total capitalization."

Mr. COOPER: That shows that the return on the total capitalization was approximately at the same rate as on the equity capital.

Mr. PICARD: You mean by that that the figures would not vary very much?

Mr. COOPER: Not a great deal. On the total capitalization it worked out at 3·5, and on the equity capital it is 3·2 per cent.

The ACTING CHAIRMAN: Are there any questions on page 8; gentlemen?

Mr. NICHOLSON: In connection with the capital expenditure amount, is there any special policy which was followed in connection with the construction of new stations? A great many communities in Canada apparently are of the impression that they require new stations as a part of the post-war building programme. Who decides whether they ought to be built?

Mr. VAUGHAN: The construction of new stations is something which is studied very carefully. A great many municipalities take pride in the appearance of their towns, and consider that they ought to have a new station. Our policy is formed by the need, by the condition of the station, by the population they have to serve, and the traffic that is available. All these factors are taken into consideration when we build a new station. We only build them where they are most needed. Naturally, we cannot give every one a new station who wants one.

Mr. GIBSON: Better not build any new stations until we get more houses.

Mr. JACKMAN: Hear, hear.

The ACTING CHAIRMAN: Are there any other questions on page 8?

Mr. PICARD: The bulk of that amount in the capital expenditure account would be for rolling stock?

Mr. COOPER: The details of that are shown on page 10.

Mr. PICARD: When you mention equipment purchases would that be rolling stock or new cars?

Mr. COOPER: Yes.

Mr. PICARD: That would be mainly freight cars?

Mr. COOPER: Yes, we mention that in the narrative. We say: "The major portion of the total expenditure was for new equipment acquired under hire-purchase agreements with the Dominion Government, consisting of 1,980 box cars and 146 refrigerator cars costing $10,078,911."

Mr. PICARD: I did not see that.

Mr. JACKMAN: Some years ago I asked a question about rolling stock predicated on this basis, that if the railway was able to handle such an increased volume of traffic during the war years and we expect some decrease in the post-war years would the demand for new rolling stock equipment be extraordinary or just be as it was in pre-war years to carry the volume of business you expect?

Mr. VAUGHAN: I do not think that there is going to be any great demand for new equipment. I think that our situation would be pretty much as it was before the war. We will add to our equipment as the need arises to take care of obsolesence and if there is new business in the offing or our earnings increase and any particular class of traffic requires new equipment we will buy it.

Mr. JACKMAN: You are not expecting any very heavy outlay beyond the scale that you had in 1939?

Mr. VAUGHAN: No. We will have some sleeping cars to order and perhaps a few freight cars in the next two or three years, and perhaps a few locomotives, but our requirements are not going to be very heavy in the line of new rolling stock.

The CHAIRMAN: Page 9, gentlemen.

Mr. JACKMAN: I should like to ask a question in connection with the Canadian National Express. Does it operate at a profit or a loss? Can you tell?

Mr. VAUGHAN: I think it may be said that it operates at a profit. They pay a certain amount to the railway for the use of the facilities. Have you got the figures there?

Mr. COOPER: Yes.

Mr. JACKMAN: Is it treated as a separate company in your accounts?

Mr. VAUGHAN: Just a department of the railway.

Mr. JACKMAN: Do you charge them for all haulage?

Mr. VAUGHAN: Yes. Mr. Cooper can give you just what they paid the railway last year for the use of the facilities.

Mr. COOPER: The gross revenue is $18,898,000, and their operating expense, which does not include the hauling of the cars is $10.565,000. There is a net of $8,332,000. That is what they paid to the railway for hauling the cars.

Mr. WALTON: Whatever they make goes to the railway anyway, so that if you try to work out a charge it is always questionable whether you have included everything that should be there. All of their results go to the railway in any case.

Mr. NICHOLSON: I have had some complaints from the travelling public because of the large volume of goods being carried as L.C.L. on western lines, goods that normally should be moved by freight trains. I was informed in February that a rake that will be used next summer was transferred from one express car to another while a passenger train was held up, ond that twenty bags of flour are unloaded at a single station while a passenger train is held up. Are there many complaints about that?

Mr. WALTON: There have been very few complaints reaching me. It may be that in some cases we are attempting too much on trains of that kind. The handling of L.C.L. freight on certain passenger trains was undertaken with a view to meeting truck competition. It was the intention to expedite freight that might otherwise go by truck and generally to give good movement to less than carload freight. It may be, as you say, that in some cases we have gone too far with it. I will be glad to take it up with our people and see. There may be a few cases of that kind where undue delay to a passenger train has occurred.

Mr. NICHOLSON: If the people were going hungry you could very well ship a bag of flour by a passenger train but when that is not the case it should hardly be necessary when there is a freight train the next day.

Mr. WALTON: Perhaps it was not separated properly.

Mr. JACKMAN: The rates are much higher by express than by freight.

Mr. VAUGHAN: It may be that somebody was urgently wiring for that particular commodity and they put it on the passenger train.

Mr. WALTON: It is the moving of certain merchandise by passenger trains. It was undertaken some years ago because of truck competition.

Mr. NICHOLSON: Yes, but you were not supposed to handle heavy commodities that would hold up a train.

Mr. JACKMAN: Despite the competition with the trucks and the fact you have to be competitive in your rates the cost of transporting twenty tons of flour by freight must be infinitely lower than transporting it by express.

Mr. WALTON: I do not think there would be anything like twenty tons.

Mr. NICHOLSON: I said twenty bags.

Mr. HARKNESS: Under wages I see that you have applications which would cause an increase of $32,000,000 per annum. Would not all these applications if granted by the tribunals that are now looking into them be retroactive to 1945 and thereby reduce the surplus that you have shown?

Mr. VAUGHAN: It is very difficult to say what award will be made by the War Labour Board. We have no idea. A number of unions now have their applications before the War Labour Board. Whether or not they will make any awards retroactive we cannot say.

Mr. HARKNESS: The applications are to have them made retrospective?

Mr. VAUGHAN: In the past they have made some of them retrospective, yes.

Mr. HARKNESS: Until those are settled you will not know whether this $24,000,000 surplus is the correct figure or not?

Mr. VAUGHAN: Yes. If they are settled they will have to go into the 1946 accounts now. That is if there is any retroactive feature.

Mr. HARKNESS: Under the heading "Back Pay" or something like that.

Mr. PICARD: That would be mainly on the American lines, would it? I refer to these applications for increases that are pending.

Mr. VAUGHAN: No, that is on Canadian lines. We have applications on Canadian lines from various unions, and they are not all in yet, amounting to over $30,000,000.

Mr. PICARD: Is your problem on the American lines with the American unions fairly well settled now? Do you know now exactly where you stand?

Mr. VAUGHAN: There has been an increase of 16 cents an hour granted in the last month which was made retroactive to the 1st of January. You have probably seen in the newspapers that the men are not satisfied with that. They are demanding another 14 cents an hour. They are threatening to go on strike if they do not get it. What will be the result I do not know.

Mr. PICARD: You do not figure that would be made retroactive prior to January?

Mr. VAUGHAN: No.

Mr. HARKNESS: As a result of the wage increases which have been given in the United States what difference is there in the rates generally paid in Canada to your employees as compared with employees on the same job in the United States? Is there much of a differential?

Mr. WALTON: There is a considerable differential. As to one or two classes I have in mind it is in the neighborhood of 20 per cent, somewhere around 20 per cent, speaking from memory.

Mr. HARKNESS: I presume that the applications from Canadian employees are to bring their wage rates up to the level of the American employees in many cases?

Mr. WALTON: In the past they have asked that on a number of applications.

Mr. VAUGHAN: I think it is fair to say that in Canada some of our employees have more favourable conditions than obtain in the United States railroads, and that makes up for quite a little percentage of the difference.

Mr. NICHOLSON: What, for example, have you in mind?

Mr. VAUGHAN: Well, in our schedules there are things like preparatory and and terminal time, and I do not think they are in the American schedules.

Mr. WALTON: That is true.

Mr. MUTCH: Is there a contractual obligation that there shall not be more than a certain percentage of spread between the American and Canadian rates?

Mr. VAUGHAN: No, there is nothing of that kind in the schedule at all.

Mr. HARKNESS: Generally speaking it would be true to say that as long as the American rates are above the Canadian rates you will have pressure from your Canadian employees to get up to the same rate?

Mr. VAUGHAN: That has not altogether been a factor with the unions in the past. It undoubtedly is a talking point for them, but that disparity has existed for many years, and usually applications of Canadian railroad men are for about the same percentage of increase as are given in the United States.

Mr. MUTCH: Is it correct to say that there is less spread in the case of the running trades than the other railway employees?

Mr. WALTON: Yes, I think it would be less in the case of the running trades.

Mr. MUTCH: They most closely approximate the American rates.

Mr. PICARD: Would not that difference in wages be more or less related to the cost of living index in the United States and in Canada?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: It might also be pointed out that American congressmen are much better remunerated than members of parliament.

Mr. VAUGHAN: Nearly everyone in the United States is better remunerated.

Mr. HARKNESS: If any large proportion of these wage applications is granted it will mean even if the traffic is maintained that you will probably go in the red next year?

Mr. VAUGHAN: It all depends upon the increases that are granted. Our showing at the end of this year will depend very largely not only upon the rate at which traffic is maintained but upon the rate at which wages are maintained.

Mr. HARKNESS: If the whole thing were granted you would certainly go in the red?

Mr. VAUGHAN: No doubt about it, no doubt about that at all, and if only a percentage of it is granted we will go in the red.

Mr. MUTCH: On that one score alone.

Mr. HARKNESS: Assuming even that you keep your traffic up, so that the picture is not very good from that point of view?

Mr. VAUGHAN: That is correct. I would say that if any further increases are granted with traffic as it is we are almost sure to go in the red. That is after taking into account the payment of our full interest charges to the government.

Mr. PICARD: I see an item about fish traffic moving in greater volume. Is there anything being done toward having better facilities for transporting fish from the Atlantic coast inland by way of refrigerator cars in larger number, and so on, so as to provide the central market with the eastern products?

Mr. VAUGHAN: I think we have plenty of refrigerator cars available for that service.

Mr. PICARD: Are you meeting that demand at the moment?

Mr. VAUGHAN: Yes, we are.

Mr. PICARD: Then it is the fishermen who are not providing the fish in sufficient quantities to have it available on the markets.

Mr. MUTCH: They are getting a better price in the United States for it.

Mr. NICHOLSON: In connection with the paragraph on hotel operations what sort of a contract is there with the C.P.R. in connection with the Hotel Vancouver and how long does the contract last?

Mr. VAUGHAN: That is a rather involved contract. As you know, there was a new hotel company formed in which each railway, the C.P.R. and ourselves, have an equal interest. This hotel company rents from the Canadian National Railways the Vancouver Hotel at a specific rental per annum. What is the exact amount?

Mr. COOPER: $280,000.

Mr. VAUGHAN: $280,000 a year. Then after taking care of that whatever profits there may be are divided between the two railways.

Mr. GIBSON: Did the C.P.R. invest capital funds in there?

Mr. VAUGHAN: No, they have no capital funds invested at all in the hotel.

Mr. NICHOLSON: What was the idea of enternig into an arrangement with the C.P.R. after building a hotel?

Mr. VAUGHAN: As you know, the hotel was closed down for some years. It was not completed because business was so very bad. The C.P.R. was losing money on their hotel and it looked at that time that we would lose money if we opened up our hotel and operated it in competition with the Canadian Pacific Railway hotel. Ours was a much more modern hotel and could be operated more economically so an arrangement was made between the two railways under which they would close their hotel and would get an interest in the new hotel company that was formed to operate our hotel.

Mr. NICHOLSON: For how many years?

Mr. VAUGHAN: Twenty one years with the option of renewal. They have the option of renewing that for another 21 years.

Hon. Mr. CHEVRIER: It was done pursuant to the C.N.-C.P. Act, under the authority of the C.N.-C.P. Act.

Mr. NICHOLSON: In what year was that?

Mr. VAUGHAN: The hotel was opened in 1939.

Mr. MUTCH: I do not know whether this is exactly the point at which to introduce it. I do not want to pursue it very far, but in all your hotel service, and specifically in the Vancouver Hotel. I think that the service to the public could be improved by a little cracking down on the private graft in connection with them. I refer to some of the employees in these hotels. It is a fact that at the present time, of course, accommodation is much less than public demand but without saying any more than that I think that some of your lower officials around that place are making almost as much money as the railways out of that hotel.

Mr. VAUGHAN: You are referring to the Vancouver Hotel?

Mr. MUTCH: Specifically.

Mr. VAUGHAN: Well, certainly if there is anything of that kind we will investigate it.

Mr. MUTCH: I do not mean anything essentially corrupt, but I do not think that the public are getting the service that they are entitled to. I think that the people who are flush are getting better service than the people who are not.

Mr. VAUGHAN: We will check up the service there, although I have not seen any complaints along that line, and we have had a great many compliments about the operation of the Vancouver Hotel.

Mr. MUTCH: The Amercian tourist as an individual is a very profitable man for this business, but they have habits with respect to getting service.

Mr. VAUGHAN: I suppose the inference is that some of the hotel employees are accepting money for providing accommodation.

Mr. PICARD: That is general hotel procedure throughout Canada and the United States now.

Mr. MUTCH: I think it is a little bit more than an inference, and I think it is worse there than at any other hotel in the system.

Mr. HARKNESS: One of the things that is being referred to is along this line. You order a jug of ice and give the boy that brings it up a dollar. Then you want another jug of ice in a few hours and you get one, but if you give the boy 25 cents, and particularly if you give him nothing, you will wait for a dickens of a time before you get another jug of ice.

Mr. MUTCH: If you go in there and want a room and you know whom to see and how to talk to him you will get a room although you come in much later than other people who rely on seniority rather than subsidizing somebody. I do not suggest that it is a national scandal or anything of that description, but I do suggest that it has not been entirely helpful.

Mr. VAUGHAN: If anything of that kind is going on we will very soon correct it because it should not be.

Mr. PICARD: I think that it cannot be corrected anyway, because I have dealt personally with the president of a private hotel company and as you have said he has said, "I will investigate", but he admits frankly that it cannot be proven, it cannot be established. It is a practice that may be worse in Vancouver Hotel, but I know that it exists everywhere.

Mr. GIBSON: We need more accommodation in Vancouver worse than anywhere else.

Mr. PICARD: Are we going to be given a printed statement as to your hotel operations, or is that all we are going to get? We get one for the steamships.

Mr. VAUGHAN: You can get anything you want.

Mr. PICARD: Of course, by asking, and we will get a very fair answer, I am sure, but I mean are we not entitled to a more elaborate statement as to these different hotels taking them one after the other, a perfect statement as to your hotel system?

Mr. VAUGHAN: We will be glad to give you a copy of this statement. We do not make it public, but it is always available for any members of this committee who want it. We have a broken down statement here showing earnings and expenses of each hotel. We do not put it in the report because we do not want to advise our competitors of everything we are doing.

Mr. PICARD: I remember that is the answer that has been given before. I do not object to that, but I think we should be entitled to have it in our hands in order that we may see what opinion we should form on the management of the hotels.

Mr. VAUGHAN: In the past, strange to say, that statement has always been asked for by somebody.

Mr. PICARD: Yes, and the same answer has been given.

Mr. VAUGHAN: We have always filed it, and we will file it now.

Mr. PICARD: I wish we could get that report in our hands for more than five minutes.

HOTELS

Year 1945	Revenues	Expenses	Taxes	Net
Charlottetown	$ 188,015 66	$ 149,932 48	$ 5,739 23	$ 32,343 95
*Pictou Lodge	....	2,000 43	289 04	*2,289 47*
Nova Scotian	846,356 37	604,314 63	19,592 84	222,448 90
Chateau Laurier	2,317,341 16	1,688,436 94	71,231 81	557,672 41
Prince Arthur	283,753 15	231,532 32	5,812 53	46,408 30
*Minaki Lodge	1,010 25	9,194 20	60 75	*8,244 70*
Fort Garry	762,641 54	567,697 03	31,081 71	163,862 80
Prince Edward	201,097 52	169,925 81	4,668 71	26,503 00
Macdonald	743,778 99	594,202 20	17,194 89	132,381 90
*Jasper Park Lodge	....	61,500 66	5,378 56	*66,879 22*
Bessborough	606,429 39	471,063 29	3,723 03	131,643 07
Total	$5,950,424 03	$4,549,799 99	$164,773 10	$1,235,850 94

*Closed during the year.

Capital Investment	Des. 31, 1945
Charlottetown	$ 863,682 74
*Pictou Lodge	215,577 87
Nova Scotian	2,489,478 99
Chateau Laurier	8,978,855 07
Prince Arthur	1,194,997 90
*Minaki Lodge	1,104,704 91
Fort Garry	2,936,135 30
Prince Edward	538,344 07
Macdonald	2,291,164 70
*Jasper Park Lodge	2,722,912 51
Bessborough	3,566,080 71
Total	$26,901,934 77

* Closed 1943, 1944 and 1945.

Mr. MUTCH: Since I raised the issue a moment ago about the service in the hotels I want to exclude specifically the management of that or any of the other hotels from any complicity in the sort of racket which I suggest. It is at a much lower level than that. I think I should say that in fairness.

Mr. VAUGHAN: I am sure that the management is watching that feature but as has been explained here it is difficult to watch every move. One of the greatest difficulties is with the client himself. He comes to the hotel and he is

willing to pay more money for service. He sees lots of fellows standing around and he goes to Bill Jones and he says, "Here is $2 or $3 or $5. Get me a room", and he gets it for him. The management may not know anything about it. He goes to the room clerk. Perhaps he knows him. He says, "Bill, here is a fellow I would like to get a room for". That is the way it is arranged, but every man should be dealt with on the same basis.

The ACTING CHAIRMAN: Would you go to page 10, gentlemen?

Mr. JACKMAN: In connection with the report of these hotel operations I wonder if you would be good enough to put down the capital investment in each one, and since you do not charge depreciation on the hotels would you put in the amount of capital expense, not just repairs but the item which takes the place of depreciation. Do you call that capital expense? For instance, you informed me one year that if you did build a wing on the Chateau that would be charged to the current year's operations. I should like to know how much was charged last year for that type of work.

Mr. PICARD: You do not want to go back to 1930 and the remodelling of the Chateau Laurier, do you?

Mr. JACKMAN: I am just giving an example of what I want. If you had a depreciation account it would all be there. I would know what all the items were. As it is now you simply give the difference between the gross and the net without any item for depreciation.

Mr. COOPER: What rate do you think we should have for depreciation?

Mr. JACKMAN: It must be well established in the income tax department. If you will refer to Mr. Elliott he will probably tell you. In place of depreciation under the old system on the whole railway accounting the practice was to charge renewals against current operations. I think that is the right term to use. Now, how much have you been charging in the last year against these various hotel properties by way of renewal which is in lieu of depreciation?

Mr. COOPER: We will have to analyze that. I would very much sooner take the results as we have given them and charge in depreciation at whatever rate you wish.

Mr. JACKMAN: Then that would upset the operating figures.

Mr. COOPER: I just want to say this. Take the Chateau Laurier, the hotel was built in 1912. It is now 1946. It has been in operation for thirty-four years. The Canadian Pacific use a $2\frac{1}{2}$ per cent rate. A $2\frac{1}{2}$ per cent rate for thirty-four years would mean that the Chateau would be 85 per cent depreciated. The Chateau Laurier under depreciation accounting would be supposed to be 85 per cent depreciated, but you could not rebuild the Chateau Laurier for the amount at which it stands on our books today.

Mr. JACKMAN: I appreciate that but we have to use some basis for accounting. We use cost as a rule, to that the $2\frac{1}{2}$ per cent would be considered the rate for the life of the building, and if that is a reasonable rate that would be quite satisfactory.

Mr. COOPER: I think it is excessive.

Mr. JACKMAN: All I want to arrive at is the true profit, and I am quite content to take $2\frac{1}{2}$ per cent on the building and 10 per cent on fixtures and furniture, whatever it might be.

Mr. COOPER: I certainly think that would be excessive.

Mr. JACKMAN: 10 per cent?

Mr. COOPER: $2\frac{1}{2}$ per cent on the building is excessive.

Mr. JACKMAN: You say that is what your competitor charged and probably was allowed by the income tax department.

Mr. COOPER: Yes, but we have no income tax problem.

Mr. JACKMAN: No, but we have to find out how your hotel properties are doing, and I would like to have a figure.

Mr. COOPER: Suppose we put in a $1\frac{1}{2}$ per cent rate just to see what the results would be.

Mr. JACKMAN: I will take your judgment as to what you think is a fair rate on the depreciation.

Mr. COOPER: I think that $1\frac{1}{2}$ per cent would be enough. Our investment in hotels is $26,000,000. $1\frac{1}{2}$ per cent would make $400,000. That would be added to the expense figures we have charged in our accounts.

Mr. JACKMAN: Then you have been doing something all along in lieu of depreciation.

Mr. COOPER: I do not think we have done very much replacement during the war. As a matter of fact, we have not been able to secure the labour and material.

Mr. JACKMAN: What I am getting at is a statement of the profits of the hotel system because you have not been charging off wastage of capital during the last year anyway.

Mr. COOPER: All I am arguing in the case of the Chateau Laurier is that there is appreciation as well as depreciation, and I am satisfied that the appreciation in the case of the Chateau Laurier overtakes the depreciation which theoretically may be deemed to exist.

Mr. JACKMAN: Yes, but we could say that about any physical asset in the country, and you would not get anywhere unless you have something arbitrary. We can frame our own judgment as to what the replacement value may be, but you have just told me now—

Mr. COOPER: To meet your point of view I would agree that you should add $400,000 additional into the cost of operating our hotels to get the result as you would like to have it.

Mr. GIBSON: Have you only $26,000,000 invested in hotels?

Mr. COOPER: Yes, sir. That is apart from the Vancouver Hotel.

Mr. GIBSON: That cost half that much itself.

Mr. VAUGHAN: It cost around $11,000,000, did it not?

Mr. GIBSON: I think more than that.

Mr. COOPER: $11,000,000 to $12,000,000.

The ACTING CHAIRMAN: Is there anything on page 10?

Mr. VAUGHAN: I think what Mr. Jackman is trying to drive at is he wants to know if we have been setting aside any specific amounts for deferred maintenance.

Mr. JACKMAN: I want to know whether or not you actually made half a million dollars in the Chateau Laurier last year as you have reported. Mr. Cooper tells me that this year you have not made any capital replacements, and the assets are becoming physically older and older. Any private company would have to make allowance for that by steady amortization of the hotel property, but you tell me that you have not set up depreciation. We know that. There has been no capital improvement in lieu of it, and the $500,000 is to my mind—and I think to the mind of any accounting person—a complete overstatement of the profit situation for 1945.

Mr. COOPER: If you want to put in depreciation at $1\frac{1}{2}$ per cent you could reduce it by $135,000 and you would still have over $400,000.

Mr. MUTCH: And you would have no more accurate a picture.

The ACTING CHAIRMAN: Page 10, gentlemen.

Mr. POULIOT: Do we continue tonight, Mr. Chairman?

The ACTING CHAIRMAN: It has been brought to my attention that we might meet tonight at 8 o'clock in order to help the officials to get through. I was wondering if that was the wish of the committee.

Mr. JACKMAN: We have already had two meetings today, and it is pretty hard going. We have a lot of other committees and we have parliament itself and correspondence.

The ACTING CHAIRMAN: It is so much easier for them to meet tonight than in the daytime because there are so many committees in the daytime. I should like an opinion on this.

Hon. Mr. CHEVRIER: Unless there is unanimity I do not think we should press it.

Mr. JACKMAN: I think that two sessions a day are pretty hard going, except in exceptional circumstances.

Mr. POULIOT: What about tomorrow night?

The ACTING CHAIRMAN: Tomorrow is Wednesday night. I suppose you would sooner meet tonight than Wednesday night.

Mr. HARKNESS: I have made other arrangements.

Hon. Mr. CHEVRIER: If the committee wishes to meet tonight I am all for it.

Mr. PICARD: Two sittings a day are enough.

Hon. Mr. CHEVRIER: I would have thought so, but I think we should sit tomorrow from 11 until 1, and then from 4 to 6.

Mr. PICARD: That is right.

The ACTING CHAIRMAN: And not tomorrow evening.

Hon. Mr. CHEVRIER: No.

The ACTING CHAIRMAN: I think it will take some time to get through this.

Mr. PICARD: We are going quite fast. We are up to page 10.

The ACTING CHAIRMAN: What about pages 10 and 11? Can we pass them?

Mr. MOORE: In connection with that I should like to ask a question. Over the past year I have noticed that both Halifax papers have continually complained about the smoke nuisance in the city of Halifax. They have asked from time to time that facilities be provided for hauling in the trains with electric or diesel locomotives.

Mr. VAUGHAN: That is correct. They have asked that we put some diesel locomotives down there. We have some more on order. Perhaps at some time we may be able to put one or two more down there, but that is a rather anomalous situation in Nova Scotia. They depend for their livelihood to a large extent on the production of coal and yet they want us to take away the coal burning engines and put in oil burning engines.

Mr. PICARD: We might say, Mr. Chairman, that we will approve up to and including page 11. We can always come back to any of the items later on. I would suggest that we approve up to page 11 inclusive and then have all our questions on the different items.

Hon. Mr. CHEVRIER: Before we adjourn, Mr. Chairman, there was a question asked some time this morning as to the jurisdiction of the Dominion government with respect of interprovincial transportation. I have asked the legal officers of the department for their opinion and I am informed that in 1937 when the Transport Bill was up before the House, Justice had given an opinion with reference to the point, and they then stated that the Dominion government has jurisdiction so far as interprovincial and international transportation was concerned; but the provinces took strong objection to that and they challenged, notwithstanding the statement of Justice, the jurisdiction of the

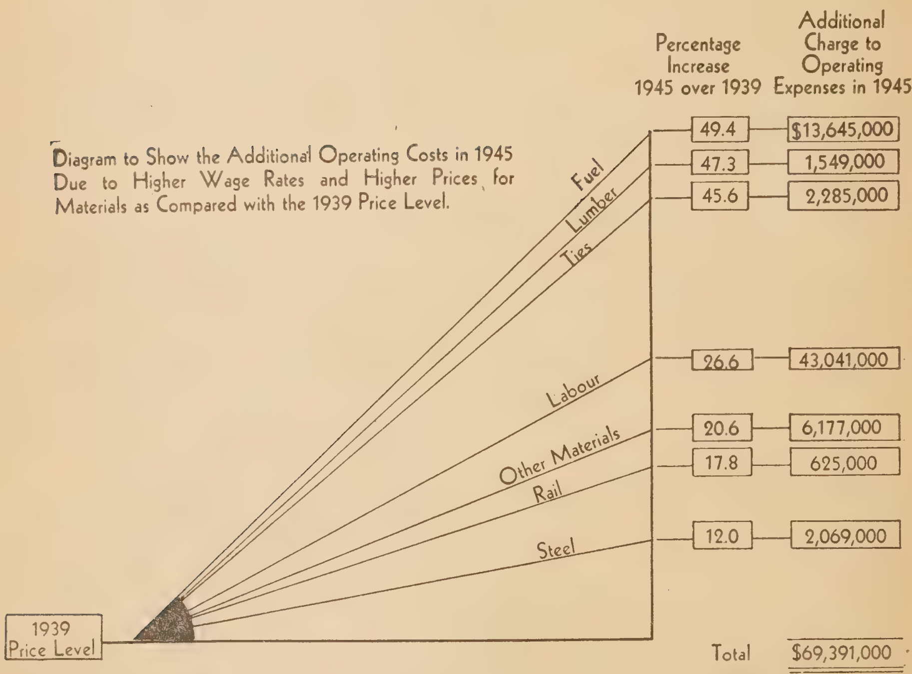
federal government on even interprovincial transportation, and the control section of the bill was withdrawn because of the opposition of the provinces. They made representations so strong to the effect that their revenue would be curtailed substantially, that in view of those representations it was decided to withdraw that portion of the Transport Bill. I think that will answer your question.

The ACTING CHAIRMAN: Gentlemen, shall we adjourn until to-morrow morning at eleven o'clock?

Some Hon. MEMBERS: Agreed.

The committee adjourned at 6.05 o'clock p.m. to meet again tomorrow, Wednesday, May 15, at 11.00 o'clock a.m.

APPENDIX A



SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MAY 15, 1946

WITNESSES:

Mr. R. C. Vaughan, Chairman of Board of Directors and President, Canadian National Railways.

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways.

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

Room 497, House of Commons,
Wednesday, 15th May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 o'clock a.m. Mr. McCulloch (Pictou) in the Chair.

Members present: Messrs. Chevrier, Emmerson, Gibson *(Comox-Alberni)*, Harkness, Hazen, Jackman, LaCroix, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid.—14.

In attendance: the same officials as on Tuesday, 14th instant.

The Committee resumed consideration of the Anuual Report for 1945 of the operations of the Canadian National Railways.

The Consolidated Balance Sheet as at December 31, 1945, was considered in detail and Mr. Cooper, Vice-President and Comptroller of the C.N.R. answered questions in connection therewith.

The Committee adjourned at 1 o'clock p.m., to meet again at 4 o'clock p.m. to-day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m. Mr. McCulloch (*Pictou*) presided.

Members present: Messrs. Chevrier, Emmerson, Gibson *(Comox-Alberni)*, Hazen, Kuhl, Jackman, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid.—13.

In attendance: the same officials as were present this morning.

The Committee resumed consideration of the 1945 Report of the Canadian National Railways.

Messrs. Vaughan, Walton and Cooper replied to questions.

Mr. Picard broached the matter of the publication of a breakdown of the item under operating expenses: "salaries of general officers." Mr. Vaughan expressed the opinion that it would be unfair to the officers of the System to publish details. The Minister of Transport (Hon. L. Chevrier) pointed out that it had not been the practice to publish this information but that the Committee, should it decide to exercise it, has the power to ask for the production of details. Discussion followed.

On motion of Mr. Picard, it was

Resolved,—That the Committee adopt the 1945 Report of the operations of the Canadian National Railways System.

The Committee then took up consideration of the 1946 Budget for the Canadian National Railways. Messrs. Vaughan, Walton and Cooper were questioned thereon.

The Committee adjourned at 6 o'clock p.m., to meet again at 11 o'clock a.m. on Thursday, 16th May, 1946.

T. L. McEVOY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 15, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'colck a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The ACTING CHAIRMAN: I will ask Mr. Vaughan to read the balance sheet or have it read.

Mr. VAUGHAN: I think Mr. Cooper might deal with the highlights of the balance sheet.

Mr. COOPER: The balance sheet as at December 31, 1945, is on pages 12 and 13. The form of balance sheet is one which is standard to all railroads on the North American continent. On the assets side the assets are divided between investments, current assets, deferred assets and unadjusted debits. Under the heading of investments the first item is investment in road and equipment property. That is our recorded cost of all the railway property which is comprised in the Canadian National Railways system. It includes the old Grand Trunk and all its subsidiary companies, the Canadian Northern and all its subsidiary companies, the Grand Trunk Pacific and all its subsidiary companies, and also the government railways, that is, the Intercolonial Railway, the National Transcontinental Railway and all other smaller railways which were previously known as Canadian government railways.

Mr. VAUGHAN: And some of which have been added since.

Mr. COOPER: Yes. That includes everything except the Hudson Bay railway and the P.E.I. car ferry.

Mr. REID: Is it increasing year by year?

Mr. COOPER: Yes.

Mr. MUTCH: That is on the equipment side, property.

Mr. COOPER: In 1945 the account increased by $12,709,000 principally with respect to equipment which was referred to yesterday. Taking the equipment account by itself the account includes $522,000,000. Road property totals $1,447,000,000. The average investment per mile operated works out at $83,739, per mile.

The next item, improvements on leased property—

Mr. NICHOLSON: Have you a breakdown of this total for road and equipment? How about hotels? Do they come in that?

Mr. COOPER: No. We will come to that. They are in the third item, as a matter of fact. The first item comprises what we call railway property or transportation property.

Mr. NICHOLSON: You gave one figure of $1,444,000,000. Have you any further breakdown of that? What is included in that?

Mr. COOPER: That would include our track, track structure and all stations, shops, bridges, and that sort of thing. As to improvements on leased railway property the investments there are similar to the first item except that we do not own the property itself. We have certain lines which are under long term lease, and any improvements which we make as lessee to those properties are carried in the second account. The principal railways included in that would be the New London Northern, $1,373,000 and the Northern Pacific line in Manitoba, $982,000. With respect to that second line there is an item in the 1946 budget for its acquisition.

CONSOLIDATED BALANCE SHEET

ASSETS

Investments:			
Road and Equipment Property	$1,970,804,554 19		
Improvements on Leased Property	3,019,853 95		
Miscellaneous Physical Property	63,814,189 89		
		$2,037,638,598 03	
Sinking Funds:			
System Securities at par.	$ 542,862 06		
Other Assets at cost	296,587 20		
		839,449 26	
Capital and Other Reserve Funds:			
System Securities at par.	$ 471,500 00		
Other Assets at cost	3,514,132 98		
		3,985,632 98	
Deferred Maintenance Fund .		39,000,000 00	
Investments in Affiliated Companies		41,342,143 68	
Other Investments:			
System Securities at par.	$ 80,000 00		
Other Assets at cost	907,167 14		
		987,167 14	
			$2,123,792,991 09
Current Assets:			
Cash		$ 18,487,984 21	
Temporary Cash Investments		9,519,425 00	
Special Deposits		10,916,724 53	
Net Balances Receivable from Agents and Conductors		13,891,322 87	
Miscellaneous Accounts Receivable		14,972,723 42	
Material and Supplies		49,979,114 57	
Interest and Dividends Receivable		712,971 41	
Accrued Accounts Receivable		7,171,287 49	
Other Current Assets		39,049 13	
			125,690,602 63
Deferred Assets:			
Working Fund Advances		$ 371,660 64	
Insurance Fund:			
System Securities at par.	$ 4,651,502 06		
Other Assets at cost	7,774,266 90		
		12,425,768 96	
Pension Contract Fund		29,671,000 00	
Other Deferred Assets		3,072,290 74	
			45,540,720 34
Unadjusted Debits:			
Prepayments		$ 92,845 74	
Discount on Funded Debt		5,702,293 05	
Other Unadjusted Debits		2,535,563 91	
			8,330,702 70
			$2,303,355,016 76

CERTIFICATE

We have examined the books and records of the companies comprising the and subject to our report to Parliament, we certify that, in our opinion, the above view of the affairs of the System as at the 31st December, 1945, and that the stated.

15th March, 1946.

AT 31st DECEMBER, 1945.

LIABILITIES		
Stocks:		
Capital Stocks of Subsidiary Companies held by Public		$ 4,643,040 00
Long Term Debt:		
Funded Debt Unmatured:		
Held by Public	$ 567,434,133 42	
Held by Special Funds	5,745,864 12	
		573,179,997 54
Dominion of Canada (Accounts treated as assets in Public Accounts of Canada):		
Loans	$ 674,201,612 83	
Canadian Government Railways—Working Capital	16,771,980 54	
		690,973,593 37
Current Liabilities:		
Traffic and Car-Service Balances—Credit	$ 8,176,116 46	
Audited Accounts and Wages Payable	14,997,372 19	
Miscellaneous Accounts Payable	6,473,852 86	
Interest Matured Unpaid	7,012,029 29	
Unmatured Interest Accrued	6,299,297 10	
Accrued Accounts Payable	3,944,228 13	
Taxes Accrued	2,088,574 35	
Other Current Liabilities	7,825,253 21	
		56,816,723 59
Deferred Liabilities:		
Pension Contract Reserve	$ 29,671,000 00	
Other Deferred Liabilities	6,173,842 13	
		35,844,842 13
Reserves and Unadjusted Credits:		
Insurance Reserve	$ 12,425,768 96	
Accrued Depreciation—Canadian Lines—Equipment only	70,790,188 60	
Accrued Depreciation—U.S. Lines—Road and Equipment	22,400,749 89	
Accrued Amortization of Defence Projects	3,818,935 41	
Deferred Maintenance Reserve	39,000,000 00	
Other Reserves	8,313,612 60	
Other Unadjusted Credits	7,821,037 05	
		164,570,292 51
Dominion of Canada—Proprietor's Equity—(*See* Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000 00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	381,711,556 78	
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	
		777,326,527 62
Contingent Liabilities:		
Major contingent liabilities, as shown on statement attached.		
		$ 2,303,355,016 76

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

OF AUDITORS

Canadian National Railway System for the year ended 31st December, 1945,
Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct
relative Income Account for the year ended the 31st December, 1945, is correctly

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Miscellaneous physical property includes our investment in non-transportation property. The principal item would be our hotels, including the Vancouver hotel, and the amount would be $38,935,000. Then we have grain elevators and warehouses, $3,992,000 and subsidiary land companies, Rail and River Coal Company, and companies of that nature amounting to some $17,587,000.

Mr. JACKMAN: Who owns the leased properties after the expiration?

Mr. COOPER: The lessor will, and the improvements would revert to the lessor, but 999 years is a long time.

Mr. JACKMAN: All the leases are 999 years?

Mr. COOPER: Yes. I do not think we need to worry about what will happen at the termination of the lease.

Mr. EMMERSON: Mr. Cooper, would that property include any section of the road that is under lease to other companies?

Mr. COOPER: No, sir, that would be in the first item.

Hon. Mr. CHEVRIER: Some of these 999 year leases give the railway the right to purchase, do they not?

Mr. COOPER: In the case of the Manitoba Railway, yes. We have an option to acquire that railway at any time for $7,000,000, and we propose in 1946 to get authorization for the acquisition of that railway.

Mr. MUTCH: I understand that none of these leases are near expiring.

Mr. COOPER: No.

Mr. HAZEN: I notice there is a decrease of over $1,200,000 in the value of the miscellaneous physical assets compared with 1944. What is that decrease due to?

Mr. COOPER: Principally sales of land in western Canada and the abandonment of one of the mines of the Rail and River Coal Company.

Mr. HAZEN: One of what?

Mr. COOPER: One of the mines belonging to the Rail and River Coal Company.

Mr. HAZEN: Where was it situated?

Mr. COOPER: In Belmont county, Ohio. The next item there is sinking funds. In our bond issues we have two issues which have sinking fund provisions. One is the 6½ per cent sinking fund debenture bonds issued by the Canadian Northern in 1921 and which matures in July, 1946. Under the terms of the trust deed we are required to keep on deposit with the trustees $250,000 which is used by the trustees to acquire those securities in the open market if they should fall below par, but there is no possibility of a dominion government guaranteed bond with a 6½ per cent coupon falling below par these days. The other issue to which there is a sinking fund provision is the St. John & Quebec Railway. The trust deed requires that each year we pay into the trust account 2 per cent of the issue which is used by the trustees to acquire these particular bonds on the market.

Then we have capital and other reserve funds, $3,985,632.98. That represents proceeds from the sale of property which is under mortgage and by the terms of the trust deed we are required to keep the proceeds on deposit with the trustees for the security of the bond holders.

The deferred maintenance fund represents the investment of our deferred maintenance reserve. We invested the entire amount set aside for deferred maintenance in victory bonds, and at the end of 1945 we had $39,000,000 of victory bonds as against our reserve.

Mr. JACKMAN: I think yesterday you stated that $5,000,000 had been added to this deferred maintenance.

Mr. COOPER: In 1945.

Mr. JACKMAN: Could you tell us this, generally; how the $5,000,000 is calculated? If you have a fund of $39,000,000 intact against that deferred maintenance you must have withdrawn the earnings either as one item of $5,000,000 from your operating surplus, or as I think was said in a previous year, the deferred maintenance fund is built up by individual specified items and not just a general allocation from surplus. May I ask you here specifically, was any of that $5,000,000 taken from hotel earnings and put into deferred maintenance, or how did you build that fund up last year?

Mr. COOPER: We charged $2,500,000 to operating expenses under the heading of maintenance of way. You will see that item on page 15; and we charged $2,500,000 to operating expenses under the heading of maintenance of equipment; and you will find that item, the last item on page 15, under the heading of maintenance of equipment. In other words, Mr. Jackman, the entire $5,000,000 was charged as an operating expense in 1945; one half to maintenance of way, and one half to maintenance of equipment.

Mr. JACKMAN: You take it as a general item. It is not built up of through specified items such as was suggested last year; certain stations would ordinarily have been painted but were not because the paint was not available. It is taken up by general allocation?

Mr. COOPER: That is correct.

Mr. JACKMAN: And nothing was taken from hotel earnings to build this up due to the fact that actual work was deferred; for instance, take the Chateau Laurier, you didn't do any renewals or replacements.

Mr. COOPER: I might mention there that we have set aside in addition to this $39,000,000, $364,000 with respect to deferred maintenance on hotel property. That is carried in another account, and we will come to that later. Over and above the $39,000,000 with respect to railway fixed property and equipment we have set aside $364,000 with respect to deferred maintenance on our hotel properties.

Mr. JACKMAN: Was there any subdivision of the system where a similar procedure was followed?

Mr. COOPER: No.

The ACTING CHAIRMAN: Did you ever think of selling these $39,000,000 of bonds and getting $105 for them?

Mr. COOPER: What would we do with the proceeds?

The ACTING CHAIRMAN: Re-invest it.

Mr. COOPER: You can't show much of a profit that way, you would have to pay $105 to re-invest it.

Mr. JACKMAN: How much is the accumulated total maintenance, total deferred maintenance on hotel properties or on other accounts over and above the $39,000,000.

Mr. COOPER: $364,000.

Mr. JACKMAN: That was for the one year?

Mr. COOPER: No. That is accumulated.

Mr. JACKMAN: How much was taken off last year?

Mr. COOPER: One-third of that. Then we come to investment in affiliated companies—the details of which are given on page 23.

Mr. HAZEN: Did you make any investments in affiliated companies during the year?

Mr. COOPER: In respect of the Northern Alberta Railway, the Toronto Terminal Railway and the Chicago-Western Indiana Railway, yes; we did increase our investment.

Mr. HAZEN: I notice there is about a $620,000 increase, something like that I think, in that account as compared to last year.

Mr. COOPER: We purchased $400,000 of the bonds of the Northern Alberta Railway. That was to finance their capital expenditures and the two railways, the Canadian Pacific and the Canadian National, had to put up the funds, for which we received Northern Alberta bonds in settlement. We also advanced $100,000 to the Toronto Terminal Railway with respect to their capital expenditures. We also advanced $125,000 to the Chicago-Western Indiana, which was a requirement under one of their bond issues of which we are a joint and several guarantor.

Mr. HAZEN: The Northern Alberta bonds pay interest?

Mr. COOPER: Yes, sir, 5 per cent.

Mr. GIBSON: What price did you pay for that?

Mr. COOPER: Par.

Mr. JACKMAN: For what would that line need extra capital?

Mr. COOPER: For their expenditures on capital account.

Mr. JACKMAN: When you paid it out you received bonds in exchange and they are your assets. You received $400,000 in bonds. That is what you did?

Mr. COOPER: Yes, of the Northern Alberta.

Mr. JACKMAN: Does that increase your equity in that account somewhere?

Mr. COOPER: No, I would not think so. It increases our investment in the company, but our equity account would remain as it was.

Mr. JACKMAN: You and the C.P.R. are the proprietors?

Mr. COOPER: Yes.

Mr. JACKMAN: That is shown in your account $5,000,000?

Mr. COOPER: $500,000.

Mr. JACKMAN: $500,000 increase in your—

Mr. COOPER: In the bonds of that company, not in the stock of that company,

Mr. JACKMAN: All right.

Mr. COOPER: Other investments; they are miscellaneous investments in various companies which we have made from time to time, and includes system securities at par and other assets at cost.

Mr. HAZEN: Other assets at cost, are they listed, or is that just a lump sum?

Mr. COOPER: No, we have a list of them.

Mr. HAZEN: The reason I asked that is because I noticed that they only amount to $907,000, last year they amounted to $1,837,000. They are just about one-half of what they amounted to last year and I was wondering what the explanation of that was.

Mr. COOPER: Well, it is really because in that account last year we carried temporarily a million dollars which we had purchased for the deferred maintenance fund, we purchased more than we needed for that purpose; that is to say, we believed we were going to set up $6,000,000 as deferred maintenance and we acquired $6,000,000 victory bonds against that, but when we completed our accounts we limited our deferred maintenance provision to $5,000,000, so we moved $1,000,000 of victory bonds from the deferred maintenance fund down to this account of which we are speaking, and during this year we moved it back. It was simply a transfer between the deferred maintenance fund and the other investment account.

Cash $18,000,000—no explanation is needed there.

Temporary cash investments—$9,500,000.

Mr. JACKMAN: Why the difference in terminology in these two items?

Mr. COOPER: Cash, of course, is cash in the bank, but temporary cash investments means that the cash has been invested in securities; and the amount of $9,000,000 represents the reserve that we had created in respect of inventories and war projects. Cash for the amount which we had in reserve was invested in Dominion of Canada bonds and is so held until it is required. The differentiation there between cash, and temporary cash investments, is that one is in the form of cash at the bank which we can draw on, and the other is in the form of investments which we would have to sell before we could use it.

Special deposits: That represents amounts at the bank to take care of interest as it falls due for payment. Most of the interest comes due for payment on January 1, 1946, At the end of the year it is a special deposit at the bank, earmarked for the redemption of coupons falling due on January 1st.

Mr. JACKMAN: Do you get any allowance of interest on that?

Mr. COOPER: We get the ordinary bank rate, it is very, very small.

Mr. JACKMAN: These are for the most publicly held bonds, government bonds, are they?

Mr. COOPER: It is all held against publicly held bonds. Under the heading of other current liabilities you will see there is interest matured unpaid $7,000,000. Of the $9,000,000, $7,000,000 is for such interest.

Mr. MUTCH: The money would not necessarily be in the bank for any considerable period of time?

Mr. COOPER: No, it is put in there two or three days before January first. It had to be there December 31st.

Mr. JACKMAN: So bank interest is not really a factor in the account at all.

Mr. COOPER: Not at all.

Mr. JACKMAN: The point I was getting at is that the bank does not allow you anything on the money that you owe to the government.

Mr. COOPER: It was not owed the government.

Mr. JACKMAN: Is was not?

Mr. COOPER: No, it was in respect of bonds which are held by the public, the coupons being due on January first.

Mr. JACKMAN: The suggestion that I was going to make was that if it were government bonds you might as well turn the money over to the government, a few months' interest on $10,000,000 would amount to something, it very quickly runs into substantial figures.

Mr. COOPER: That is right, but this is not payable to the government.

Mr. JACKMAN: How do you pay your interest on indebtedness to the government?

Mr. COOPER: We write a cheque and send it to them. The amount is agreed to between the officials of the Department of Finance and the railway, and we send them a cheque for the amount. Last year we sent them a cheque for over $20,000,000.

Mr. JACKMAN: I thought if you were embarrassed for cash or the government were, that you could always arrange payment between yourselves.

Mr. COOPER: We are not embarrassed for cash, we have $18,000,000 of it.

Mr. JACKMAN: Yes, I am not suggesting that you would be. The position is different where you have to meet payments on coupons falling due on bonds held by the public, but otherwise there would not be much use in holding money in the bank pending settlement.

Mr. COOPER: Net balances receivable from agents and conductors: I do not think any explanation of that is needed. Miscellaneous accounts receivable, $14,000,000; there is no explanation of that needed. These figures, of course,

are so large that we speak in millions of dollars. Very few companies, if any, in Canada have figures of this magnitude. I should like to say to the committee that while these figures are in large denominations, we account for them as meticulously as if they were the size of an ordinary commercial corporation.

Mr. JACKMAN: We are used to dealing in large figures here in Ottawa.

Mr. NICHOLSON: I notice that in the Canadian Pacific's balance sheet they have an item of $15,000,00 for agents and conductors balances.

Mr. COOPER: A similar figure.

Mr. NICHOLSON: Yes.

Mr. COOPER: The next is material and supplies. That represents the stocks of material on hand at the end of the year. During 1945 we reduced our material supplies by some $5,500,000, and as business declines that account should reduce. Prior to the war it was in the neighbourhood of $26,000,000 or $27,000,000. Our business doubled and our stock of material doubled. In 1945 we took a physical inventory of our stocks. It was our practice to take an inventory once a year, but under war conditions, due to lack of personnel, we had to give that up. It is a requirement of the Interstate Commerce Commission that the railroads in the United States take a physical inventory once a year, but they waived that requirement because the railways were not in a position to make a stocktaking during the war period. However, with the war over we took the first opportunity we could for seeing that our ledger balance for stores and material was in accordance with the actual physical units of material on hand.

Mr. MUTCH: What was it?

Mr. COOPER: I have the figure here. The excess value of stores on hand over the ledger balance, after writing off the obsolete material, was $471,000, which is less than 1 per cent of our inventory.

Mr. MUTCH: Did I understand you to say the excess?

Mr. COOPER: The excess. The actual amount of material exceeded the ledger balance by $471,000, which was less than 1 per cent; and considering the fact that we have not been able to take inventory during the war, I think that is a testimony to the effectiveness of our stock control methods.

Mr. REID: What would the purchase of your material and supplies ordinarly run per year?

Mr. VAUGHAN: I am sorry, but I did not catch that question, Mr. Reid.

Mr. REID: What would the total of your material and supplies purchased for the year ordinarily run at?

Mr. VAUGHAN: Depending on the amount of new equipment bought; it runs from about $80,000,000 to $100,000,000 a year in normal times.

Mr. MUTCH: Would any of that surplus inventory be the result of accrual of value of the equipment or supplies held over a period of time?

Mr. COOPER: Yes. We have to price our inventories at the end of the year at the current values. Generally, on a rising price market there is an advantage to the inventory, but when prices fall it acts in the reverse direction.

Mr. MUTCH: There was a margin of error, if you could call it that—I suppose you could hardly call it that—of even less than the actual figures indicated.

Mr. COOPER: That is true. Actually, we have almost a daily inventory system in effect. We have bin cards which show the actual number of units of material there should be on a particular shelf or in a particular bin, and from time to time the storekeepers go over that and verify it.

Mr. MUTCH: Over a period of five years, I would say that is a remarkable performance.

Mr. COOPER: I think it is.

Mr. JACKMAN: Do I understand, Mr. Cooper, that when you list the inventory you naturally do it at the cost price?

Mr. COOPER: No; at the prevailing price.

Mr. JACKMAN: I do not mean when you check it, but rather when you set up your books to begin with.

Mr. COOPER: It is charged into the store account at cost.

Mr. JACKMAN: At cost?

Mr. COOPER: Yes.

Mr. JACKMAN: Then when you check that up, even after a period of years such as the war years when you could not make a physical inventory, you price it then at the going value?

Mr. COOPER: That is so, except with respect to ties, fuel, rail and things of that sort. From time to time we establish average prices. The figures which the president used in saying what the present price of material was, say for coal, was the average stock price. The current buying price would be in excess of the figures which he quoted.

Mr. REID: Have you experienced any great difficulties over the past year in obtaining supplies? I think it is a splendid thing to have that material on hand, and I am just wondering what the experience has been?

Mr. VAUGHAN: It has been quite a struggle, Mr. Reid, to get our entire requirements in various lines during the year, and it is necessary under existing conditions that we keep our stock well ahead, as far as we possibly can.

Mr. JACKMAN: If you use a price inventory such as you suggested and not a physical unit inventory, how do you really get a check on it? It is quite true that none of this stuff probably was five years old, although you did mention obsolescence. But if you take even six months' turnover in your stores, there would be in these days a considerable price increase. It does not seem to me that is a check on the carefulness of the system. I think you would have to do it on the physical unit basis. How did it work out on that basis?

Mr. COOPER: Well, I could not tell you that. We have hundreds of stores. I could not tell you just how the number of units match; that is, the actual count as against the number of units shown in the ledger.

Mr. JACKMAN: But if you inventory, say, bolts at 9 cents and then when you come, after years, to check what you actually had in hand, and they are selling for 12 cents, that is an awful difference, and it does not tend to accuracy. What I want to know is, if you put 100,000 bolts in there, have you got vouchers for 90,000 taken out and 10,000 remaining?

Mr. MUTCH: How else could you determine how many bolts you had at 12 cents? You cannot compare bolts with dollars. It has got to be translated into the same commodity.

Mr. VAUGHAN: Your point is covered. There is an actual physical count made of every one of those bolts.

Mr. JACKMAN: But Mr. Cooper said that the result was within 1 per cent of what was shown on the books, but the bolts in the meantime have appreciated in price. Therefore if they have appreciated from 9 cents to 12 cents, 25 per cent less bolts physically in number would be your actual figure, whereas you would in fact have lost through disappearance or somehow, 25 per cent of your units.

Mr. COOPER: I appreciate your point, Mr. Jackman; but you have overlooked the fact that these older purchases have been charged out. We charge out the older prices first, and what remains in stock at an actual stocktaking is the material which has been purchased in the last two or three months, and there is not any sizable increase in the price.

Mr. JACKMAN: You do not feel that the lag would be more than two or three months? It would not be six months?

Mr. COOPER: Not as to the bulk of the material. There may be some special units that have been in for some time. They would probably go in the inventory at their original price.

Mr. REID: I may be duplicating this question owing to the fact that I was not here yesterday morning, but I was wondering if the price of materials such as ties and steel has increased very much in the past year

Hon. Mr. CHEVRIER: Yes.

Mr. VAUGHAN: That was given in the statement which I read. They have increased very materially.

Mr. JACKMAN: There is a chart on that. (Appendix "A" No. 1).

Hon. Mr. CHEVRIER: There is a chart on page 7. You will see ties particularly.

The Acting CHAIRMAN: Will you go on now, Mr. Cooper, to the next item?

Mr. COOPER: Yes. The next item is interest and dividends receivable. I think that speaks for itself. The next is accrued accounts receivable. They are accounts, the audit of which has not been completed. When it is completed, it would move up into the item miscellaneous accounts receivable. Generally that account refers to government warrants which have not gone through the complete process of audit, but we accrue the revenue and we take up a debit in this accrued accounts receivable.

Mr. HAZEN: Where are rents receivable shown?

Mr. COOPER: Rents receivable are in miscellaneous accounts receivable.

Mr. NICHOLSON: Was there any special reason for breaking down this miscellaneous accounts receivable this year? I notice it was not done last year.

Mr. COOPER: That is a change which was made by the Interstate Commerce Commission and we followed suit. They are always making changes in both their operating and balance sheets and income accounts, and we follow then as a rule. The next item is other current assets, $39,000, which is a small amount.

Mr. HAZEN: Pardon me, but before you go on I should like to ask a question about the Interstate Commerce Commission. Do you come under that body?

Mr. COOPER: No. We come under it with respect to our United States companies. The Interstate Commerce Commission is a body that is very well qualified to prescribe the form in which railways shall keep their accounts. The American Railway Association, which comprises all the railroads in the United States, has a number of committees. I am speaking now of accounting. They have other committees with respect to operation, engineering and all the other branches of railroading. But with respect to accounting they have a number of committees. They have a general accounts committee of which I am a member, and so is Mr. Leslie of the Canadian Pacific. There are 24 members on that general committee representing the principal railroads in the United States. Then they have other committees. They have a committee on freight accounts, one on passenger accounts, one on overcharges, one on express accounts, and a number of others. When a railway official has an idea with respect to an improvement in railway accounting, he generally submits that suggestion to the

association and it is considered in committee. If the committe approves of it, they refer it to the Interstate Commerce Commission. If the commission approves of it, they issue an order making it mandatory. Because their accounting regulations have that degree of authority, and experience behind them and because of our operations in the United States, we as a matter of accounting policy follow the rules and regulations of the Interstate Commerce Commission, not by compulsion, but because we do not know of any other system which is as satisfactory and which would afford comparable comparisons with other American railways.

Mr. HAZEN: Mr. Cooper, does the Canadian Pacific Railway follow the same rules?

Mr. COOPER: Again I hesitate to speak with respect to the accounting for the Canadian Pacific Railway; but I venture the opinion that they do substantially as we do. I would imagine that the Canadian Pacific Railway adheres to the I.C.C. form of accounting. Mr. Leslie is a member of the general committee, and Canadian Pacific officers are members of the subcommittees, they are active like our officers are, in the affairs of the association. Two years ago Mr. Leslie was chairman of the general accounting committee and from my knowledge—I see their detailed reports to the Dominion Bureau of Statistics—I think I could say that they, like we, follow the general accounting practices of the Interstate Commerce Commission.

Deferred assets, these are advances to employees of the railway to enable them to make business trips and to operate small working funds.

Insurance fund, $12,425,768.96. That represents the investment of our insurance reserve.

Mr. JACKMAN: Do you carry your own insurance?

Mr. COOPER: Yes sir, we carry our own insurance.

Pension Contract Fund, $29,671,000. That too represents the investment of the reserve for pension contracts which have been issued.

Other deferred assets, $3,072,290.74. That is a miscellaneous collection of accounts. The items which go into the group of current assets are supposed to be those which can be realized upon within one year from the date of the balance sheet. Anything about which we have doubt as to its collection, or the collection of which may be deferred beyond one year, is moved down to the category of deferred assets.

Mr. HAZEN: Your insurance fund is less this year than last year by over $300,000. What is that due to?

Mr. COOPER: It is the first time, I think, since 1923 that our loss experience exceeded the income of the fund. We had three serious disasters. We lost the Prince George. She was insured for something like $500,000. Then we lost the sheds at Point Edward; and we lost the sheds at Depot Harbour. Those three items together amounted to about $1,500,000, the three things coming in the one year had the effect of reducing the fund during that year. But there is no doubt that, over the years, the fund is sufficient. It meets all the risks which the railway elects to carry.

Mr. NICHOLSON: How do you arrive at your rate; how do you build up this fund?

Mr. COOPER: We do not charge ourselves a premium any more. We feel the income from this fund is sufficient to cover the losses which occur. It was originally built up at underwriters rates; but the fund has been built up to a point where it can absorb all the losses which take place so there is no use in going on and building it up any further.

Mr. JACKMAN: I suppose you carried war risk insurance from the government during the war days?

Mr. Cooper: Not on the railway. We did, however, on the West Indies service with respect to our steamships; but we did not go into the government scheme of war risk insurance.

Mr. Nicholson: Could you give us the details in connection with the building of this fund?

Mr. Cooper: It really started in 1923. There was a small carry over from the Grand Trunk to the Canadian National. The amount would be about $1,500,000, although I speak from memory. But from 1923 until now we have built it up to about $12,500,000.

Mr. Nicholson: How long has the interest been carrying your losses?

Mr. Cooper: For at least ten years; in fact it has more than carried our losses. There has generally been an addition or profit in the fund each year. The income from the fund, over the years, has more than met the losses which we have experienced.

Mr. Nicholson: You do not recall how your fund stood ten years ago?

Mr. Cooper: Ten years ago it was $11,000,000.

Mr. Nicholson: You have added over $1,000,000 to it?

Mr. Cooper: Yes.

Mr. Jackman: The government itself carried insurance on the Park Steamship Company for instance, in connection with that explosion in Vancouver harbour. There is a claim against the underwriters. Your experience has, no doubt, been very profitable to the company, but I wonder why it would be that the government would see fit to insure, with the credit of the whole of Canada behind it, whereas the railway company, a very large corporation, sees fit to carry on virtually all its own risks?

Hon. Mr. Chevrier: In connection with the Park Steamships, they are a separate corporation. It is true, it is an operating company which has made charters with various other companies, under various conditions.

Mr. Jackman: But this is also alleged to be a separate corporation. I do not see any difference; that just proves my point.

Hon. Mr. Chevrier: But you raised the question why the government would not act in like manner?

Mr. Jackman: Why should not this company act in like manner to the government?

Hon. Mr. Chevrier: Yes, but there is a distinction between the two.

Mr. Jackman: But both, in fact, are Crown companies.

Hon. Mr. Chevrier: That is true; but there are various kinds of Crown companies; for example, those Crown companies that act in the manner of agents for the Crown. I think that is what the Park Steamships are. But I think the Canadian National Railways are on a different basis.

Mr. Reid: Is it not a fact that the Canadian National Railways only adopted this system after some years, and that formerly they were insured?

Mr. Mutch: In any case the discussion is extraneous to the purpose of this committee.

The Acting Chairman: Next item.

Mr. Cooper: Prepayments, $92,845.74. That is a very small item. Discount on funded debt $5,702,293.05. That represents the balance of discount suffered at the time of the issue which we are amortizing. On the liability side—funded debt. The details are given on pages 21 and 22 of this report.

Mr. Hazen: What is the amount?

Mr. Cooper: Pages 21 and 22.

Mr. JACKMAN: That first item, stocks, capital stocks of subsidiary companies held by public $4,643,040. Does that refer to those small lines which operate out of Montreal?

Mr. COOPER: You will find all the details on pages 24 and 25.

Mr. JACKMAN: Have you made any further progress in acquiring those minority interests?

Mr. COOPER: Not in 1945; but we have given the matter a great deal of study, although I cannot say we have made a great deal of progress, but we are working on it.

Mr. JACKMAN: You are making use of those properties and you are improving gratuitously the equities of those minority stock holders?

Mr. COOPER: No. For any improvements we make to those properties the companies are held indebted to the Canadian National Railways.

Dominion of Canada loans; they are shown on page 22 of this report of the total of $674,201,612.83. $391,179,395.36 was for the repatriation of United Kingdom securities; $195,264,135.50 was for debt redemption; and $73,851,082.26 was for new rolling stock. $13,906,999.71 was for working capital.

Mr. JACKMAN: Can you set out how much of that long trend debt was outstanding at the time of the formation of the Canadian National system?

Mr. COOPER: In 1923?

Mr. JACKMAN: If that is the date?

Mr. COOPER: At the end of 1922, December 31st, the funded debt held by the public was $804,000,000.

Mr. JACKMAN: And how much was owed to the Dominion of Canada at that time, if anything?

Mr. COOPER: I do not have that figure, Mr. Jackman; but whatever it was, it was washed out in the Capital Revision Act.

Mr. JACKMAN: In the Capital Revision Act of 1937. $904,000,000 was transferred from the debt to the proprietorship.

Mr. COOPER: No sir, $270,000,000.

Mr. JACKMAN: You gave me that $270,000,000 yesterday for that account, and $373,000,000, loaned by the government for deficits.

Mr. COOPER: They were washed out.

Mr. JACKMAN: Washed out entirely; yet, there was $904,000,000 owing?

Mr. COOPER: But the $904,000,000 owing had to do with deficits which, in our opinion, were not proper as interest bearing loans. Some of them existed in 1922. The Canadian government began to assist the Canadian Northern in 1914 and it certainly started to assist the Grand Trunk in 1919; and they also assisted the Grand Trunk Pacific. There was a sizable figure due to the government in 1922.

Mr. JACKMAN: That was what I was trying to get at when I asked how much was owed to the Dominion of Canada at the time of the formation of the Canadian National system?

Mr. COOPER: I have not got that figure here.

Mr. JACKMAN: But have you any idea of what it would run to?

Mr. COOPER: I will give it to you at the next meeting.

Mr. PICARD: Do you mean that those deficits should be wiped out on account of the financial structure of the company?

Mr. COOPER: They were deficits, and it was thought that they should not appear in the capital statement.

Mr. PICARD: Were they deficits?

Mr. COOPER: They were; they represented the amount by which the railway failed to earn its interest.

Mr. PICARD: They were not operation deficits? You made more money than you spent on the operation of the railways?

Mr. COOPER: Never since 1923 has the Canadian National Railways failed to earn its operating costs.

Mr. PICARD: That is what I thought. So you mean this: accumulated deficit for which loans were made. You had to meet some interest on your obligations?

Mr. REID: On page 22, speaking of interest, I note at the top of the page it gives the principal outstanding and then the interest accrued as at 1945. In looking at the items I see that most of them are four per cent. There is one $4\frac{1}{2}$ and one five per cent, but most of the issues are at four per cent. When you take the principal outstanding it seems to be correct. I am only speaking from a cursory glance, but there is one figure that has intrigued me. That is the five per cent indebtedness to the province of New Brunswick. There you have a principal outstanding of $380,022.60 at five per cent. That would amount to $19,000 odd. I notice that it states the interest accrued is $24,192. It is the only one that does not seem to correspond with the interest rate.

Mr. COOPER: During the year some of that indebtedness was paid off. This interest item is not interest on the balance at the end of the year. It is the interest accrued for the year. In other words in the early part of the year the amount of indebtedness exceeded $380,000.

The ACTING CHAIRMAN: Shall we go on with page 13 and get that in?

Mr. COOPER: Current liabilities; traffic and car service balances, audited accounts payable, miscellaneous accounts payable, interest matured unpaid, unmatured interest accrued, accrued accounts payable, taxes accrued, and other current liabilities, $56,000,000. I do not think they call for any comment.

Mr. JACKMAN: As to the taxes accrued are those mostly municipal taxes or sales taxes or what?

Mr. COOPER: They would be municipal taxes and taxes in respect of our United States subsidiaries.

Mr. REID: Could we have an explanation regarding the Dominion of Canada loans for repatriation of securities, or have we reached that point? If not, that question can wait until we come to it.

Hon. Mr. CHEVRIER: We went into that very thoroughly yesterday.

Mr. REID: If that was gone into yesterday I will accept the record.

Mr. COOPER: It was thoroughly gone into yesterday.

Mr. JACKMAN: In regard to municipal taxation on the old Intercolonial railway and some of these other railways which were formerly Crown companies do you pay taxes to the municipalities there?

Mr. COOPER: We do in one or two cases on non-transportation property, yes.

Mr. JACKMAN: On non-transportation property?

Mr. COOPER: Non-transportation property.

Mr. JACKMAN: You pay taxes on the non-transportation property?

Mr. COOPER: We have some property at Halifax which was purchased in anticipation of future use. It was not devoted to railway purposes and it was agreed that we should pay municipal taxes.

Mr. JACKMAN: But as to railway properties within municipalities?

Mr. COOPER: On railway property, no, although we have an agreement with the Maritime provinces whereby we paid them $250,000 a year.

Mr. JACKMAN: In lieu of any municipal taxes?

Mr. COOPER: In lieu of provincial taxes.

Mr. JACKMAN: I understand that there was some agitation in Halifax, and I think perhaps Saint John, to assess you for municipal taxation. What are the pros and cons of that? You do not pay any at the present time apart from the grant to the province of New Brunswick and the province of Nova Scotia.

Mr. COOPER: We do not, and they are bringing or threatening to bring action against us. The case has been in suit for at least two years. I do not know where it stands at the present minute.

Mr. JACKMAN: On other divisions of the railway do you pay taxes to the municipalities?

Mr. COOPER: Yes, we pay, for instance, in the city of Montreal, Toronto and, in fact, in all cities we pay municipal taxes.

Mr. VAUGHAN: Take, for instance, Montreal. We are by far the largest taxpayer in Montreal. I think our assessment is $10,000,000 more than the assessment of any other company.

Mr. MUTCH: You pay taxes on the Fort Rouge yards?

Mr. VAUGHAN: Yes. I think there is some agreement with the city there. I do not recall just what it is but there is some special arrangement.

Mr. MUTCH: There is a special arrangement.

Mr. VAUGHAN: I do not remember it offhand but there is a special arrangement there.

Mr. MUTCH: Has that been challenged or has there been any request for reconsideration of that?

Mr. VAUGHAN: No, that matter has not been up recently at all. We do pay some voluntary taxes down east. For instance, we pay taxes on our hotel in Halifax voluntarily.

Mr. JACKMAN: You pay the full rate?

Mr. VAUGHAN: We pay practically the same taxes on our hotel as are paid on the C.P.R. Hotel, the Lord Nelson, in Halifax. We did that as a voluntary act on our own part.

Mr. JACKMAN: Did this exemption from municipal taxation which is peculiar to the maritimes arise because the railways which were incorporated in the system in 1922 were formerly Crown companies?

Mr. COOPER: They are still Crown companies. So far as the Canadian government railways were concerned they were exempt from taxation. The other parts of the system, the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific, are not exempt from taxation.

Mr. VAUGHAN: The C.P.R. has certain exemptions from Winnipeg to the Rocky Mountains. They do not have to pay municipal taxes on the main line. They have just as much advantage in exemptions out west as we have down east.

Mr. JACKMAN: That is in their charter, is it?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: How about the Fort Garry hotel in Winnipeg? Do you pay taxes on that?

Mr. VAUGHAN: Yes.

Mr. REID: The C.P.R. does not pay taxes on the tracks through the municipalities.

Mr. VAUGHAN: They have a special exemption under their charter. I do not recall what it is. They pay some voluntary taxes, I think, the same as we do in the east. There is a somewhat similar situation on a portion of their lines in the west as we have in the east on the Canadian government railways.

Mr. JACKMAN: Would both railways pay taxes on their hotel properties, the Palisser in Calgary and the Macdonald in Edmonton?

Mr. VAUGHAN: I could not say whether they pay taxes there or not. We do pay taxes on all our hotels in western Canada.

Mr. HAZEN: Do you pay taxes to the city of Montreal on the station in Montreal?

Mr. VAUGHAN: Yes. We are the largest municipal taxpayers in Canada.

Mr. COOPER: Then we have deferred liabilities, and the first item is pension contract reserve, $29,671,000. That is the reserve set up against pension contracts which are outstanding at the end of the year. Then there is the item of other deferred liabilities.

Under reserves and unadjusted credits we have insurance reserve;—we have depreciation on the Canadian lines, equipment only, of $70,790,188.60;—accrued depreciation on the United States lines with respect to both roadway property and equipment of $22,400,749.89. We have set up a reserve for the amortization of defence projects of $3,818,935.41, a deferred maintenance reserve of $39,000,000, other reserves of $8,313,612.60, and other unadjusted credits of $7,821,037.05.

Mr. JACKMAN: What year was it that we set up that depreciation on the Canadian lines, equipment only, two years ago?

Mr. COOPER: We started in 1940.

Mr. JACKMAN: Is it likely to be the policy of the C.N.R. to extend that depreciation policy as you must do in the United States? For instance, as I recall it it was said yesterday only 10 per cent or less of the trackage was in the United States and yet we find that their accrued depreciation is $22,000,000 and in Canada it is $70,000,000 in place of about ten times what it is in the United States which would be comparable to the trackage. Is there any tendency or disposition on the part of the C.N.R. to adopt the American practice of depreciation on the Canadian lines?

Mr. COOPER: I do not think so. It would not be my recommendation.

Mr. VAUGHAN: We have the same practice on the depreciation of equipment.

Mr. JACKMAN: I realize that, but you were mentioning on the whole you think that the I.C.C. rules are worthy of adoption not because of compulsion but because of the inherent soundness of them.

Mr. COOPER: Yes. However, with respect to depreciation on road property I do not go along with them. They only adopted this policy in 1943. For 50 or 60 years they have contended to the contrary.

Mr. JACKMAN: There is no reason why they should not improve with time.

Mr. COOPER: No, but if you realize the change-over had to do with excess profits taxes I do not believe that is a sound argument for reversing the policy.

Mr. JACKMAN: Depreciation does not only have to do with excess profits taxes. It has to do with a true statement of your earnings, whether or not you are allowing for the gradual wear and tear of your capital equipment.

Mr. COOPER: I am pointing out that for 60 years they argued to the contrary, and even to-day taking track structure, rails, fastenings, ties, ballast, they refuse to recognize depreciation on what is called track structure. They will recognize depreciation on the fences and the telegraph posts and the station buildings and things of that sort. What logic there is in a contention

of that sort is beyond me. If there is anything subject to depreciation it is the track, but they do not follow through as far as their theory is concerned to accrue depreciation on the track.

Mr. JACKMAN: Of course, stations and some other facilities become pretty dilapidated, but you cannot let your track go for very many months, I should think.

Mr. COOPER: You must admit that depreciation is accruing on the track just as it is on the stations. It may accrue a little quicker. The service life may be shorter but nevertheless depreciation is as much a fact on the track as it is on buildings.

Mr. JACKMAN: I should be inclined to agree with you on that except that track of necessity must be maintained from day to day at a high rate. You cannot allow any substantial dilapidation to occur there whereas you may allow it with your buildings. I presume that must be the reason behind the I.C.C. ruling. As I recall some years ago when I spent a good deal of time on the depreciation policy of the railway we decided that nothing would be pressed then because of the shortage of labour and the inability to get people to make a physical inventory of all the assets, track and telegraph poles if you like, and all the rest. Therefore I thought it was your opinion also that consideration should be postponed, but as far as the principle was concerned I felt that it had been in part adopted at least, not only as to rolling stock but as to railway equipment, and that after the war you would perhaps implement the I.C.C. regulations?

Mr. COOPER: I have given it a lot of consideration and have pondered it a great deal. My belief is we should not adopt it. I am curious to see what the American railroads will do when they begin to find themselves in the red, which they are going to find themselves in, and when excess profits taxes are cancelled.

Mr. JACKMAN: If they are in the red for a justifiable purpose, namely, wear and tear of their equipment, it is another argument why fair freight rates and fair passenger rates should be charged.

Mr. COOPER: If they have to suspend dividends because of bookkeeping entries for depreciation they are going to have to scratch their heads.

The next item is Dominion of Canada proprietor's equity. That is the shareholders' account. Up above we have the Dominion of Canada in its relation to the railway as a creditor. In the proprietor's equity account we have the relationship of the Dominion of Canada as a shareholder. They have an equity capital of $777,000,000, and on the next page you see the makeup of that item and the change from 1944.

Mr. JACKMAN: Can you give the committee the amount of the shareholders' equity at December 31, 1922 at the time of the acquisition of the various railways?

Mr. COOPER: Their real equity?

Mr. MOORE: Yes.

Mr. COOPER: They had about $18,000,000 invested in the Canadian National, other than the Canadian governed railways. Answering your question a little more exactly, I would say offhand that the $18,000,000 and the $377,000,000 for the C. G. Rlys. would represent the dominion's equity as of 1923.

Mr. MOORE: That would be the amount owed the Canadian government?

Mr. COOPER: $377,000,000 was the cost of the Canadian Government Railways, $18,000,000 was cash they paid to acquire the stock of the Canadian Northern. They did not pay any cash to acquire the stock of the Grand Trunk or the Grand Trunk Pacific.

Mr. JACKMAN: So the $377,000,000 would represent the book value of the government account which you took over, I presume, and would include all the other railways which were Crown owned railways?

Mr. COOPER: That is so.

Mr. JACKMAN: And since 1922 the government investment on equity account has mounted to approximately $400,000,000.

Mr. COOPER: Yes, of which $112,000,000 represents the surplus earnings of the railway which have been allowed to increase the proprietor's equity. That would not be money put into the railway by the government.

Mr. JACKMAN: The $112,000,000 does not; but was the $112,000,000 not paid to the government as interest on the government obligation?

Mr. COOPER: No, it was paid as a reduction of debt.

Mr. JACKMAN: So you get a compensating factor in that item of $112,000,000 in the lessened bond investment to the government.

Mr. COOPER: True; but that affects their position of a creditor rather than their position as a shareholder.

The ACTING CHAIRMAN: Pages 14 to 17.

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st Dec., 1944	Transactions Year 1945	Balance at 31st Dec., 1945
CAPITAL STOCK OF CANADIAN NATIONAL RAILWAY COMPANY	$ 18,000,000 00	$ —	$ 18,000,000 00
CAPITAL STOCK OF THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST:			
Initial stated value	$270,037,437 88	$ —	$270,037,437 88
Surplus earnings	87,745,931 64	24,756,130 00	112,50[illegible] 64
Capital gains	19,105,651 38	—	19,105,651 38
Capital *losses*	*17,808,505 59*	* *2,125,088 53*	*19,933,594 12*
	$359,080,515 31	$ 22,631,041 47	$381,711,556 78
CAPITAL EXPENDITURES BY DOMINION OF CANADA ON CANADIAN GOVERNMENT RAILWAYS	$377,614,970 84	$ —	$377,614,970 84
	$754,695,486 15	$ 22,631,041 47	$777,326,527 62

*Loss on abandonment of 27·62 miles of St. Lin subdivision	*$1,167,121 47*
Loss (applicable to period prior to 1940) on retirement of rolling stock equipment	*957,967 06*

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1945	Per cent of Total
EQUITY CAPITAL:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of The Canadian National Railways Securities Trust	381,711,556 78		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	$ 777,326,527 62	38·4%
FIXED INTEREST DEBT:			
Held by the public	$573,179,997 54		
Dominion of Canada—Loans	674,201,612 83	1,247,381,610 37	61·6%
		$ 2,024,708,137 99	100·0%

*Excluding shares of subsidiary companies held by public—$4,643,040.

RESULT OF 1945 OPERATIONS

Consolidated Income Account

	1945	1944
Railway Operating Revenues:		
Freight	$316,533,328 90	$321,588,728 39
Passenger	65,199,923 28	69,776,256 67
Mail	4,204,835 42	4,204,761 03
Express	19,209,446 01	18,008,142 96
Commercial Telegraphs	7,554,813 82	7,012,442 34
All other	21,071,046 13	20,557,178 96
Total Operating Revenues	$433,773,393 56	$441,147,510 35
Railway Operating Expenses:		
Maintenance of Way and Structures	$ 70,311,162 19	$ 76,503,925 59
Maintenance and Depreciation of Equipment	76,784,609 37	80,215,292 75
Traffic	6,046,603 02	6,058,693 52
Transportation	179,119,172 42	177,889,699 03
Miscellaneous Operations	6,282,609 09	5,922,378 37
General	16,749,892 39	15,957,054 27
Total Operating Expenses	$355,294,048 48	$362,547,043 53
Net operating revenue	$ 78,479,345 08	$ 78,600,466 82
Taxes	6,476,981 25	7,341,513 86
Equipment Rents—Net Debit	3,567,783 92	2,956,314 10
Joint Facility Rents—Net Debit	556,641 66	577,994 85
Net railway operating income	$ 67,877,938 25	$ 67,724,644 01
Other Income:		
Income from Lease of Road and Equipment	$ 58,960 79	$ 61,578 31
Miscellaneous Rent Income	930,962 20	954,858 42
Income from Non-transportation Property	643,859 61	598,717 23
Results of Separately Operated Properties—Profit or *Loss*	*54,478 00*	767,528 37
Hotel Operating Income	1,235,850 94	1,188,802 92
Dividend Income	543,514 50	659,726 10
Interest Income	3,863,692 01	3,923,760 98
Miscellaneous Income	298,490 98	2,367,210 34
Total Other Income	$ 7,520,853 03	$ 10,522,182 67
Deductions from Income:		
Rent for Leased Roads and Equipment	$ 1,109,929 74	$ 1,163,904 38
Miscellaneous Rents	652,343 81	539,891 47
Miscellaneous Taxes	121,027 01	90,839 21
Interest on Unfunded Debt	387,514 73	304,644 93
Amortization of Discount on Funded Debt	1,183,920 48	936,291 03
Miscellaneous Income Charges and Appropriations	1,104,234 99	4,142,362 79
Profit and Loss Items—*Net Credit*	*244,452 22*	*27,671 41*
Total Deductions from Income	$ 4,314,518 54	$ 7,150,262 40
Net income available for payment of interest	$ 71,084,272 74	$ 71,096,564 28
Interest on Funded Debt—Public	26,021,784 56	28,135,938 36
Interest on Government Loans	20,306,358 18	19,933,701 57
Surplus	$ 24,756,130 00	$ 23,026,924 35

OPERATING REVENUES

	1945	1944
Freight	$313,013,450 06	$317,735,454 78
Payments under Maritime Freight Rates Act (20%)	3,519,878 84	3,853,273 61
Passenger	65,199,923 28	69,776,256 67
Baggage	159,084 91	156,989 88
Sleeping Car	4,580,963 69	4,564,393 26
Parlour and Chair Car	271,537 54	226,215 49
Mail	4,204,835 42	4,204,761 03
Railway Express Agency	534,662 43	632,953 99
Express	18,674,783 58	17,375,188 97
Other Passenger-Train	61,942 53	28,720 17
Milk	469,169 82	429,094 53
Switching	3,358,414 26	3,294,605 94
Water Transfers	183,272 66	190,916 37
Dining and Buffet	4,608,534 74	4,471,567 77
Restaurants	301,391 10	272,862 79

OPERATING REVENUES—*Conc.*

	1945	1944
Station, Train and Boat Privileges	570,327 56	582,179 49
Parcel Room	150,749 63	153,319 74
Storage—Freight	116,214 52	75,808 82
Storage—Baggage	117,651 20	97,881 62
Demurrage	1,840,217 42	1,886,518 72
Telegraph Commissions (U.S.)	14,314 32	14,281 72
Telegraph—Commercial	7,540,499 50	6,998,160 62
Grain Elevator	513,618 04	539,617 91
Rents of Buildings and Other Property	898,493 41	779,617 34
Miscellaneous	2,165,022 58	2,179,313 58
Joint Facility—Credit	822,641 49	736,613 73
Joint Facility—*Debit*	*118,200 97*	*109,058 19*
	$433,773,393 56	$441,147,510 35

OPERATING EXPENSES

Maintenance of Way and Structures

Superintendence	$ 3,944,226 92	$ 4,100,491 88
Roadway Maintenance	8,705,847 73	8,660,168 89
Tunnels and Subways	35,459 50	38,050 80
Bridges, Trestles and Culverts	2,715,192 03	2,424,967 38
Ties	7,599,421 14	8,294,237 25
Rails	3,183,715 56	4,026,706 50
Other Track Material	3,025,663 44	3,229,879 48
Ballast	1,803,873 16	1,502,041 15
Track Laying and Surfacing	18,150,434 30	18,979,235 81
Fences, Snowsheds and Signs	660,415 74	561,071 48
Station and Office Buildings	2,956,783 30	2,779,798 12
Roadway Buildings	352,973 30	310,629 38
Water Stations	517,550 95	561,950 03
Fuel Stations	290,714 31	278,713 86
Shops and Enginehouses	2,210,765 77	2,077,034 31
Grain Elevators	49,693 94	49,880 56
Wharves and Docks	217,414 67	227,927 51
Telegraph and Telephone Lines	1,078,893 03	1,074,642 24
Telegraph—Commercial	1,389,630 12	1,257,556 44
Signals and Interlockers	1,137,962 58	1,172,196 40
Power Plants	9,262 96	24,669 57
Power Transmission Systems	170,753 66	194,408 10
Miscellaneous Structures	3,193 01	4,824 63
Road Property—Depreciation—U.S. Lines	853,390 97	764,133 41
Road Property—Retirements	1,231,167 29	1,564,321 77
Deferred Maintenance	2,500,000 00	6,500,000 00
Roadway Machines	594,557 02	540,607 28
Dismantling Retired Road Property	81,071 66	90,363 99
Amortization of Defence Projects	2,284 68	1,002,284 68
Small Tools and Supplies	887,741 95	884,498 50
Removing Snow, Ice, and Sand	3,540,663 13	2,829,113 49
Public Improvements—Maintenance	369,035 18	370,190 41
Injuries to Persons	661,012 09	670,295 76
Insurance	28,140 76	24,666 53
Stationery and Printing	70,819 65	66,657 97
Other Expenses	63,059 99	39,742 94
Maintaining Joint Tracks, Yards, etc.—Debit	1,015,097 95	794,153 26
Maintaining Joint Tracks, Yards, etc.—*Credit*	*1,942,157 33*	*1,727,321 52*
Right of Way Expenses	75,431 46	68,484 40
Protective Services	70,004 62	190,650 95
	$ 70,311,162 19	$ 76,503,925 59

Maintenance of Equipment

Superintendence	$ 1,539,394 18	$ 1,631,670 35
Shop Machinery	2,083,485 62	1,994,656 93
Power Plant Machinery	115,858 50	108,904 48
Machinery—Retirements	200,386 19	89,900 85
Machinery—Depreciation—U.S. Lines	65,986 47	65,993 10
Dismantling Retired Machinery	2,963 50	2,849 50
Steam Locomotives—Repairs	22,780,691 45	23,100,702 73
Other Locomotives—Repairs	379,394 25	300,952 75
Freight-Train Cars—Repairs	16,879,507 30	16,673,746 56
Passenger-Train Cars—Repairs	9,358,057 50	9,126,776 80
Floating Equipment—Repairs	361,454 04	437,205 04
Work Equipment—Repairs	2,187,604 46	2,172,248 56

OPERATING EXPENSES—*Con.*

	1945	1944
Express Equipment—Repairs	207,157 24	188,324 36
Miscellaneous Equipment—Repairs	201,051 70	167,614 95
Miscellaneous Equipment—Retirements	1,798 53	6,923 44
Dismantling Retired Equipment	56,308 77	52,492 63
Equipment—Depreciation	16,974,015 87	19,853,984 95
Express Equipment—Depreciation	167,252 45	160,026 91
Injuries to Persons	579,957 56	510,255 63
Insurance	35,089 17	21,570 70
Stationery and Printing	60,202 15	53,460 21
Other Expenses	2,667 17	11,032 95
Joint Maintenance of Equipment—Debit	250,211 17	209,053 73
Joint Maintenance of Equipment—*Credit*	*205,885 87*	*225,055 36*
Deferred Maintenance—Equipment	2,500,000 00	3,500,000 00
	$ 76,784,609 37	$ 80,215,292 75
Traffic		
Superintendence	$ 2,145,109 43	$ 2,210,788 63
Outside Agencies	2,853,589 00	2,829,028 45
Advertising	341,215 04	331,246 72
Traffic Associations	121,328 18	122,579 63
Stationery and Printing	267,094 28	262,000 71
Other Expenses	225 00	233 44
Industrial Bureau	115,414 99	111,648 49
Colonization, Agriculture and Natural Resources	202,627 10	191,167 45
	$ 6,046,603 02	$ 6,058,693 52
Transportation		
Superintendence	$ 3,765,343 35	$ 4,009,532 29
Dispatching Trains	2,271,473 15	2,266,139 69
Station Employees	25,073,729 27	24,540,076 41
Weighing, Inspection, and Demurrage Bureaus	101,453 06	108,434 83
Coal and Ore Wharves	15,236 45	....
Station Supplies and Expenses	1,830,272 84	1,812,688 60
Yardmasters and Yard Clerks	4,912,250 62	4,713,325 42
Yard Conductors and Brakemen	8,518,726 18	8,493,169 31
Yard Switch and Signal Tenders	854,640 08	881,830 24
Yard Enginemen	5,364,395 97	5,385,722 59
Yard Motormen	666,539 83	628,486 59
Yard Switching Fuel	6,661,625 37	6,643,950 27
Yard Switching Power Produced	16,203 75	16,571 72
Yard Switching Power Purchased	95,393 59	98,296 02
Water for Yard Locomotives	215,453 80	209,572 15
Lubricants for Yard Locomotives	79,906 67	80,098 41
Other Supplies for Yard Locomotives	58,692 35	53,522 20
Enginehouse Expenses—Yard	2,101,901 21	2,075,708 61
Yard Supplies and Expenses	202,198 84	183,169 35
Operating Joint Yards and Terminals—Debit	1,828,166 68	1,771,465 75
Operating Joint Yards and Terminals—*Credit*	*2,031,612 59*	*2,056,723 75*
Train Enginemen	15,501,769 73	15,723,643 52
Train Motormen	121,351 22	122,442 39
Train Fuel	35,698,139 57	36,685,000 61
Train Power Produced	7,038 71	12,686 19
Train Power Purchased	43,019 07	44,177 83
Water for Train Locomotives	1,363,258 83	1,352,320 18
Lubricants for Train Locomotives	582,271 77	566,191 83
Other Supplies for Train Locomotives	326,289 07	309,738 45
Enginehouse Expenses—Train	6,031,058 67	5,949,232 39
Trainmen	17,902,623 65	18,061,650 85
Train Supplies and Expenses	11,108,584 78	10,987,421 68
Operating Sleeping Cars	2,157,966 96	2,003,564 87
Signal and Interlocker Operation	564,925 05	582,601 02
Crossing Protection	846,625 97	854,335 45
Drawbridge Operation	131,636 51	132,389 16
Telegraph and Telephone Operation	434,880 56	436,578 56
Telegraph—Commercial	5,418,338 96	5,371,875 16
Operating Floating Equipment	1,231,744 64	1,245,491 30
Express	9,905,469 86	9,415,564 85
Stationery and Printing	761,103 05	698,296 38
Other Expenses	1,307,751 13	1,244,142 92
Operating Joint Tracks and Facilities—Debit	880,785 07	833,207 47
Operating Joint Tracks and Facilities—*Credit*	*421,589 49*	*483,333 47*
Insurance	16,976 80	14,366 29

OPERATING EXPENSES—*Conc.*

	1945	1944
Clearing Wrecks	500,501 25	481,578 18
Damage to Property	78,515 34	119,443 07
Damage to Live Stock on Right-of-Way	77,005 86	76,521 27
Loss and Damage—Freight	2,050,234 82	1,772,776 52
Loss and Damage—Baggage	15,744 26	20,115 25
Injuries to Persons	1,873,160 28	1,340,642 16
	$179,119,172 42	$177,889,699 03
Miscellaneous		
Dining and Buffet Service	$ 5,615,717 45	$ 5,325,339 60
Restaurants	278,591 80	272,580 27
Grain Elevators	351,532 81	287,379 59
Other Miscellaneous Operations	36,767 03	37,078 91
	$ 6,282,609 09	$ 5,922,378 37
General		
Salaries and Expenses of General Officers	$ 493,631 92	$ 502,657 22
Salaries and Expenses of Clerks and Attendants	6,197,145 02	6,590,951 86
General Office Supplies and Expenses	308,283 54	300,660 92
Law Expenses	393,064 75	392,428 05
Relief Department Expenses	27,500 00	27,500 00
Pensions	8,864,923 03	7,641,801 74
Stationery and Printing	247,722 64	235,468 17
Valuation Expenses	15,987 70	15,793 89
Other Expenses	165,347 34	211,902 55
General Joint Facilities—Debit	47,948 29	49,294 41
General Joint Facilities—*Credit*	*11,661 84*	*11,404 54*
	$ 16,749,892 39	$ 15,957,054 27

Mr. Reid: On page 15, regarding operating expenses, I wonder if I can have a statement regarding passenger revenues. I see there is a drop there from $69,000,000 to $65,000,000, while on the sleeping car, parlour car and dining car service there is an increase of almost $3,000,000; no, there is an increase of almost $3,000,000 in passenger revenue, but there is a very considerable increase in the sleeping, parlour car and dining car revenue.

Mr. Cooper: The decrease in the passenger revenue is due to the fact that we had about 5,600,000 less passengers carried—if the members of the committee will turn to page 29 they will see towards the bottom of that page the number of passengers carried was down 5,000,000. They will also see that there was a considerable decrease in the number of passengers carried one mile, and there was a corresponding decrease in passenger revenue, due to fewer passengers having been carried.

Mr. Reid: But on your sleeping car, dining car and parlour car services you show an increase.

Mr. Walton: The sleeping car and dining car equipment was very extensively used on these movements back from overseas.

Mr. Mutch: It was standard sleepers only, wasn't it?

Mr. Walton: Yes. When they went overseas they used coaches or colonist cars, but on the return trip they had sleeping car equipment; and the use of that type of equipment is extending to the movement of dependents as well.

Mr. Emmerson: And would you be paid a transportation charge on that?

Mr. Walton: Oh, yes, but of course at a lesser rate.

Mr. Mutch: And the lowered rate compared with the greatly increased use would be a minus factor?

Mr. Walton: Yes.

Mr. Mutch: Then I think in connection with both the sleeping car and the dining car service that represents to a certain extent at any rate a luxury service.

Mr. WALTON: The most lucrative passenger traffic is the movement of passengers on the regular passenger trains. These overseas movements are usually less than normal rates.

Mr. MUTCH: We have had enough military personnel running back and forth across the country using dining cars, sleeping cars and parlour cars, to make them pay.

Mr. NICHOLSON: I wonder if we could have a statement about passenger traffic.

Mr. WALTON: You are speaking now of passenger revenue?

Mr. NICHOLSON: Yes.

Mr. VAUGHAN: I think we will come to that when we are presenting our budget.

Mr. NICHOLSON: I want to get what you estimate your revenue will be for the current year.

Mr. VAUGHAN: I think our budget will show the estimated earnings for 1946.

Mr. MUTCH: Was the biggest decrease in coach or better quality cars?

Mr. VAUGHAN: Chiefly coaches.

The Acting CHAIRMAN: Any more questions on page 15?

Mr. NICHOLSON: I want to get an answer about the estimate on passenger revenue.

Mr. COOPER: The estimated revenue is $48,957,000, which is a decrease of 24·9 per cent—25 per cent of a decrease estimated in 1946 as compared to 1945.

Mr. NICHOLSON: When did you arrive at that estimate?

Mr. COOPER: That estimate was dated December 3, 1945.

Mr. NICHOLSON: And as a result of your experience for the first quarter would that indicate that you are very close to your estimate?

Mr. VAUGHAN: That estimate was the result of a study made by our passenger traffic department, what they estimate our passenger earnings will be in the year 1946.

Mr. NICHOLSON: You have returns for the first quarter of the year now. I was wondering if the results are close.

Mr. VAUGHAN: They are running pretty close to the estimate.

Mr. GIBSON: Mr. Vaughan, I have been requested by Mr. Isnor, the member for Halifax, to ask you as to whether you have any knowledge of a statement having been made at the time of the expropriation of land, a matter which was before the Exchequer Court in 1914-15, to the effect that the movement of trains in the Halifax area would be done by electrification? If so, has this been carried out; if not, would it be carried out in the near future?

Mr. VAUGHAN: I do not recall what that agreement provided for. Certainly, we have done nothing about the electrification of the line down there because we have not considered it necessary. There have been requests made to us to reduce the smoke nuisance, the alleged smoke nuisance, if possible in the city of Halifax. We do not think it is any greater there than in any other city. But as we get more of these diesel engines, some of them may be used in Halifax in switching service, which may improve the situation there.

Mr. MUTCH: Is not Nova Scotia a coal producing province?

Mr. VAUGHAN: Yes, it is. On the one hand we are being urged to eliminate the smoke nuisance by using oil burning locomotives while on the other hand we are being urged to use more Nova Scotia coal.

Hon. Mr. CHEVRIER: Have you given any consideration to the cost of electrification, Mr. Vaughan?

Mr. VAUGHAN: No, we have not.

Mr. JACKMAN: Is the difficulty in connection with the electrification of lines, whether on main lines or at terminals, the cost of electrification or the cost of capital equipment and installation?

Mr. VAUGHAN: Both are involved. The cost of the equipment is very high, and in most cases the cost of the power itself is high; and the two combine to make a much higher cost than operation by coal.

Mr. JACKMAN: I was just wondering in connection with the surplus of power, particularly in the Montreal district—perhaps they will be getting Saguenay power down there and a much lower rate than obtained before the war—whether or not you are within a reasonable, practical distance of thinking about electrification in the Montreal area.

Mr. VAUGHAN: The cost is not yet down to a point to enable us to give it serious consideration. Our department of research and development has been going into it very carefully and are making a study of it with a view to ascertaining whether there are any points where it would be economical for us to use electricity instead of the present method. We have our passenger terminal in Montreal electrified, as you know, but in our freight terminals we use either diesel switchers or steam switchers.

Mr. WALTON: In connection with the situation at Halifax, the complaint with regard to the smoke nuisance was naturally at its worst when these heavy movements from overseas were at their peak. We have had occasions when as many as thirty passenger trains left their straight away on the hour, every thirty hours; and, leaving from the ocean terminal as they do and passing certain residential sections on a grade getting up out of Halifax, the smoke condition was at its worst. We do not think it will be that bad from now on. We have two diesel switch locomotives working in Halifax to mitigate the condition which has been complained of. I do not think it will be as bad from now on as it has been in the past.

Mr. GIBSON: Thank you very much.

Mr. HAZEN: In what cities do you use electrification?

Mr. WALTON: Just in Montreal, and also through the St. Clair tunnel between Sarnia and Port Huron.

Mr. HAZEN: Do you use diesel engines at many places?

Mr. WALTON: We have a certain number of diesels spread around at certain points. We have some additional ones on order for switching service this year. It has been a gradual development.

Mr. HAZEN: In what cities do you use them for switching service?

Mr. WALTON: We have some in Montreal, two in Halifax, some in the United States terminals; and, as I said, we have additional ones coming forward this year.

Mr. REID: With regard to the use of fuel and coal on the western division, are you using coal from the mines of Alberta and British Columbia out in that part of the country?

Mr. WALTON: It is all western coal that is used in that part of the country.

Mr. GIBSON: With respect to telegraph lines I see you show what appears to be a tremendous profit, $7,500,000, and against that you have expense account amounting to $2,400,000; are those true figures?

Mr. COOPER: On page 17, under the heading of transportation expenses, you will see the operating cost of telegraphs, $5,418,000.

Mr. REID: A short time ago a question was asked about cost of materials, ties, and so on. I notice under the heading operating expenses, maintenance of way and structures, under roadway maintenance there is an increase; and then, further down, when you come to ties, and rails, there is a considerable decrease, how do you account for that?

Mr. VAUGHAN: That would be because we have put in fewer ties than we did the previous year. We are gradually putting in creosoted ties on most of our system and those ties have a longer life than the ordinary green ties, and the more creosoted ties we get in, the fewer our renewals will be each year.

Mr. EMMERSON: Mr. Walton, referring back to Halifax, is it the poinion of the railroad that these two switch engines, diesel electric engines, will take care of the shunting?

Mr. WALTON: It was thought that these two would take care of the greater part of the shunting at Halifax ocean terminal and up toward Young avenue and in that vicinity which creates the greater part of the smoke nuisance. I do not think there is any great complaint from the Rockingham area or at Fairview. The climb up the hill out of the ocean terminal and this residential section was undoubtedly the cause of the complaint.

Mr. REID: What is the difference between right of way expenses and roadway maintenance?

Mr. VAUGHAN: That is an accounting classification.

Mr. WALTON: Are you speaking of the two separate items?

Mr. REID: Yes, the two separate items under operating expenses; roadway maintenance and, at the bottom, right of way expenses.

Mr. WALTON: That small item, or comparatively small item, of right of way expenses has to do with surveys and things of that nature whereas roadway maintenance, well over $8,000,000, is the ordinary work of maintenance of the track, bridges and so on.

Mr. PICARD: You have an item of $18,000,000 for track laying and surfacing, yet we still have ties, rails, ballast and so on. Would that $18,000,000 be just for labour?

Mr. WALTON: That is labour.

Mr. PICARD: That is just the labour of surfacing?

Mr. WALTON: Yes. The labour is the big part.

Mr. PICARD: By far the biggest amount is just for the work?

Mr. WALTON: That is right.

Mr. NICHOLSON: With reference to this parlour and chair car item, it occurs to me that the revenue received from this class of operation is not very great. Take the operation between Ottawa and Montreal, for example. The revenue for a chair is pretty small in comparison with what it costs to maintain it. Have you any information as to how profitable this type of operation is?

Mr. VAUGHAN: We do not think it is very profitable, but the chair car has been in use for a long time and there is a demand for it.

Mr. NICHOLSON: Should not those who demand it pay a little more for the service than they do now? How many passengers do you carry in a chair car as compared with a coach?

Mr WALTON: Roughly, the average car runs about 25 to 26 passengers, and the coach would possibly have an average of 66 or something like that.

Mr. NICHOLSON: What is the chair fare from Ottawa to Montreal?

The ACTING CHAIRMAN: 75 cents.

Mr. WALTON: Yes, 75 cents.

Mr. NICHOLSON: It would not appear that that would be a very profitable operation.

Mr. WALTON: No. The operation of a parlour car in itself is not very profitable, but it is one of the advantages over the buses.

Mr. JACKMAN: And the T.C.A.

The ACTING CHAIRMAN: The public demand it.

Hon Mr. CHEVRIER: You could not increase it whether you wanted to or not. The ceiling is still on.

Mr. NICHOLSON: Yes, I know. But even before the ceiling was put on, I think the fare was not high enough. What representations could be made to have this service cost what it is really worth?

Mr. WALTON: The first consideration would be whether a raise in the parlour car seat fare would drive traffic away not only from the parlour car but from a train, and those considerations are all taken into account pretty carefully in furnishing services of that type.

Mr. GIBSON: What would be the cost of pulling a car up from Montreal, say? I mean, what would the extra cost be?

Mr. WALTON: Of course, that is one of the things that is debatable.

Mr. GIBSON: I was wondering how much coal it would take, because that must be the extra cost.

Mr. WALTON: There is the wear and tear on the car, and the shopping of it.

Mr. VAUGHAN: And the wear and tear on the tracks.

Mr. WALTON: And the cost of the porter's wages.

Mr. VAUGHAN: We find it impossible to apportion the cost as between running a freight train and a passenger train.

Mr. MUTCH: Parlour car service eliminates a lot of wear and tear on your passengers.

Mr. NICHOLSON: How about the original cost of the car as compared with a passenger coach?

Mr. VAUGHAN: A parlour car costs a little more money.

Mr. WALTON: But not a great deal.

Mr. VAUGHAN: Not a great deal, no. In the modern coach, seats are expensive. But our parlour car rates are in line with the parlour car rates charged all over the continent; and that was considered, at the time they were put into effect, about as much as we would be warranted in charging..

Mr. REID: Are those cars under a patent?

Mr. VAUGHAN: Not the parlour car, no. Most of the seats we buy in coaches are patented seats.

The ACTING CHAIRMAN: Will you turn now to page 16?

Mr. PICARD: Oh, no, not that fast, Mr. Chairman.

Mr. HARKNESS: You have an item for insurance on page 15 under maintenance of way and structures. I thought you carried all your insurance yourselves? How about that?

Mr. COOPER: On the Grand Trunk Western, which is one of our United States subsidiaries, we charge them an insurance premium. When I was speaking before, I was speaking broadly of the system; but on the American line we do assess a premium charge against them for insurance.

Mr. HARKNESS: Do you place that in an ordinary insurance company?

Mr. COOPER: No. It is insured in our own account.

Mr. HARKNESS: It is just charged up?

Mr. COPPER: Yes.

Mr. REID: May I just ask this question before you turn the page? I am speaking now for a minority group in this country, the non-smokers. In the early days in travelling across the country and travelling in trains, there used to be a smoking compartment for those who smoked. But as a non-smoker, I can tell you it is not pleasant nowadays, since the tobacco companies have induced all the ladies to smoke, to sit there all day in a parlour car where you can hardly see the passengers across the way. I am wondering—and I am speaking for the minority who do not smoke, like myself—whether a small compartment should not be provided for non-smokers. As I say, it is not very pleasant to sit in these parlour cars in the midst of all that smoke.

Mr. PICARD: Why not have a compartment for the non-smokers?

Mr. REID: I think some consideration should be given to the non-smokers.

Mr. VAUGHAN: They are not supposed to smoke in the body of parlour cars.

Mr. REID: But they do so.

Mr. VAUGHAN: It is imposing quite a problem on our conductors and trainmen to prevent that. We do put signs up. Occasionally, if someone complains that he has a smoker next to him, to the conductor or to the porter, he will ask that person to cease smoking. But I am afraid if we threw out all those who smoked where they are not supposed to smoke, we would not have many passengers.

Mr. REID: I am not suggesting that. I am suggesting that in the development of cars in the future, we go the other way and protect the non-smoker by giving him a small compartment by himself.

Mr. VAUGHAN: A great many of our new coaches have a partitioned space at the back, right in the body of the car, for smokers; and we are hoping they will use it.

Mr. WALTON: In our next lot of new coaches we propose to increase the amount of space where smoking is allowed, in the hope that it will help this situation. Also we will continue, instead of having a small room reached by a passage, to have simply a portion of the coach partitioned off so that you can see right through to the smoking portion, with seats just as comfortable as those in the rest of the car.

Mr. REID: In modern coaches they are taking that very point up, because in modern coaches for long distance travel they protect the non-smoker. I can tell you that when travelling a distance, and sitting there day after day as you do if you come from British Columbia, under the conditions I have described, for a non-smoker it is not very pleasant.

The ACTING CHAIRMAN: It is pretty hard for the conductor.

Mr. REID: Oh, yes.

The ACTING CHAIRMAN: I have been in a chair when the conductor has come through and stopped people from smoking, but the minute the conductor went out they would start up again.

Mr. MUTCH: So far as chaircars are concerned, the practice is established by right that you can smoke in a chair car. You provide a multitude of ashtrays. In my experience in the last ten years, I have seen no restrictions on parlour cars.

Mr. WALTON: That was in response to popular demand, contrary to the one expressed by Mr. Reid, that in view of air conditioning and the smoke getting away fairly well, the ban on smoking in parlour cars should be removed. We had 10 to 1 representations in that direction.

Mr. MUTCH: Perhaps the minister could give Mr. Reid a pass on the T.C.A. and that would solve the problem.

The ACTING CHAIRMAN: Get Mr. Reid a good pipe, and I think it will satisfy him.

Mr. Reid: I have nothing against the pipe. It is the cigarette. I am afraid the tobacco companies will induce the children to smoke next, and there will be nothing but the babies left.

Mr. Gibson: I am rather curious to know if you are looking after your officials properly on the line, Mr. Vaughan? I am just wondering how many private cars the system has for the use of officials and how much was spent in renovating those cars last year. Have you a figure on that, Mr. Vaughan?

Mr. Vaughan: I do not think we have a figure. We can probably find that out. That all goes into our repairs to passenger equipment.

Mr. Gibson: Have you any idea how many cars you have? You naturally give one to each of your superintendents.

Mr. Vaughan: Not to all of our superintendents. To the superintendent in an isolated territory, who has to be away from home a good deal or travel a particular course, we give a car of a kind. Some of them can hardly be dignified as private cars, in fact some of them are converted cabooses. We do not waste any money on private cars. I think if you compare the condition of the private cars of the officials with the condition of the private cars of the officials of some other railroads, you would see that we have not been extravagant in that regard.

Mr. Gibson: I am glad to hear that.

Mr. Picard: How many private cars would there be on the C.N.R. for officials?

Mr. Mutch: Are you lumping work cars as private cars?

Mr. Picard: I am speaking of private cars, not work cars.

Mr. Vaughan: We do not call them private cars; we call them business cars.

Mr. Picard: Let us say luxury business cars. I do not say they are so comfortable, because I have travelled in government ministers' cars in the past, and often times I would go in the regular train because the lighting would be better in the regular coaches or the regular parlour cars than it was in the private car, because they were old cars that had probably been in use so long and every government one after the other—I mean, every new government—would hesitate about putting in the estimates the cost of a new car. So the ministerial cars are very poor. But on the other hand, I think there are only 5 of them in Ottawa at the disposal of 20 cabinet ministers; and they are not full time. How many would there be for the officials of the C.N.R.?

Mr. Vaughan: It would be easy to figure that out. Some of the superintendents—not all of them; about ten superintendents; all general managers have cars. In certain regions certain officials will share a car. For instance, the chief engineer and perhaps the chief mechanical officer will share a car. They all have not got individual cars. I think it must be 25 years since we bought a new private car.

Mr. Picard: I know. It is the same thing with government cars; I mean, government private cars.

Mr. Vaughan: Yes.

Mr. Picard: Would there be 100 on the whole system?

Mr. Vaughan: No.

Mr. Walton: I think probably the total would be about 60. That includes a couple of government cars and includes everything down to the smallest car we have, outlying superintendents' cars and so on.

Mr. Picard: You mean none has been bought in the last 25 years?

Mr. Vaughan: We have not bought a new private car for over 25 years.

Mr. Gibson: I understand that a new steel car is worth about $80,000.

Mr. VAUGHAN: A new private car today would cost a lot more than that. One of our new coaches will cost approximately $80,000, plus sales tax, yes.

Mr. HAZEN: How many elevators do you own?

Mr. VAUGHAN: We operate two elevators, but we own a large elevator at Port Arthur which we lease; and at Portland, Maine, we have an elevator; also one at Transcona.

Mr. HAZEN: Do I understand you to say you own two?

Mr. WALTON: Five all told: one at Transcona, one at Fort William, one at Saint John, New Brunswick, one at Portland, Maine and one at Tiffin, which is near Midland, Ontario.

Mr. HAZEN: The Saint John elevator does not come under the Board of Harbour Commissioners?

Mr. VAUGHAN: No, sir.

Mr. HAZEN: Do all these elevators pay, or did they pay last year?

Mr. COOPER: As regards the one at Saint John, the net result was a loss of $31,000; for the one at Portland there was a loss of $126,000; for the one at Tiffin there was a profit of $257,000, making a net profit for the three elevators which we operate of $99,000.

Mr. HAZEN: What about the other two elevators?

Mr. COOPER: They are leased.

Mr. HAZEN: You lease them?

Mr. COOPER: Yes.

Mr. HAZEN: You get a rental for them?

Mr. COOPER: Yes.

Mr. HAZEN: Who do you rent them to?

Mr. COOPER: One is the Saskatchewan pool.

Mr. WALTON: The Saskatchewan pool, and the Dominion Malting at Transcona. In connection with the three on which Mr. Cooper gave you the figures, of course there is a traffic advantage in having an elevator so that the grain moving over our line is taken care of. It is the Dominion Malting Company at Transcona, at an annual rental of $12,900; and the one I spoke of at Port Arthur, an annual rental of $153,800.

Mr. NICHOLSON: Is there any reason why the revenue should be down last year as compared to 1944?

Mr. WALTON: That would be due to the fluctuation in the grain handled. It will vary from year to year.

Mr. PICARD: While we are on the subject of expenses, I would like to say a word of two about stations because I am very much interested in stations. In fact, I know that the acting chairman expects me to speak on the subject.

In October, 1945, I brought to the attention of the committee three cases of discomfort at stations in my own district, and I was told to bring those cases to the attention of the local superintendent. I did so, but I am still of the same opinion and again I want to bring forward the grievances of some of my own people.

The Acting CHAIRMAN: Are these the same ones?

Mr. PICARD: They are the same ones that I spoke about last fall. At one particular station there are no toilet facilities and, during the previous winter, they had quite a hard time about it when trains would be as late as six or seven hours, as occurred at one point on the old Intercolonial road between Rivière-du-Loup and Québec.

My representations last fall did not bring about any betterment; so this year I have representations signed by some 35 people who sat in a station waiting for a train which was supposed to arrive there at half past eight in the morning but in fact did not arrive until five o'clock in the afternoon. At one time there were 75 to 100 people waiting in that station, and I have a statement here signed by 35 of those people.

People read in the papers about there being $24,000,000 profit for the Canadian National Railways this year, and those people wonder why improvements cannot be made out of such an amount of profit. Here is a particular place where temperatures run below zero for quite a long time and where the existing toilet facilities are located about 400 feet away from the station. Now you have a situation where there are 100 people stuck there for the whole day, including children, girls, and so on, yet I receive an official answer; we will see what we can do.

Mr. VAUGHAN: That would be a most unusual condition. We had the revenue checked up at all those stations and it was found that the number of people travelling, generally, was very small; and it was also found that there are no sewage facilities near those places.

Mr. PICARD: But the neighbouring farmer has private facilities and his house is right next to the station. He had facilities installed himself and the whole installation would not amount to more than $300. One of the stations is on the Halifax to Montreal line, and I do not think it makes sense. That particular point served about five villages. We are told that consideration will be given, yet nothing is done. The answer is a dramatic one, a nice smile and that is all.

Mr. WALTON: We have made some progress in installing toilets at stations at intermediate points where there are sewer and water available. But where such facilities are not available, it means the installation of a septic tank, an electric pump and arrangements for water to be drawn from a well; and in addition to that, it has been found, upon more than one occasion, that those arrangements, where there is not a proper sewage system, are unsanitary. We have purposely gone slowly in respect to those installations where sewer and water are not available. On the other hand, St. Francois may have some unusual condition with respect to the number of passengers.

Mr. PICARD: Especially the weather conditions.

Mr. WALTON: That is true, but that also applies to the greater part of Canada in winter time. But as I say, in general, we have been hesitant in making such installations where sewers and water are not available.

Mr. PICARD: There is a small group of buildings around there and they all have tanks and wells. In fact, I had a summer home at Cacouna, and there was no sewer there; but we installed the necessary facilities. These people have to suffer throughout the winter and they cannot find justification in your adding great comfort for the benefit of some classes who use the railways, in the way of pullman cars and so on, when a sum of $300 would add so much to their comfort.

Mr. VAUGHAN: I think the average cost would run to something like $1,200 to $1,500.

Mr. PICARD: But my installation at Cacouna did not cost me that much, at my summer place. The farmer next door to the station could not afford to pay that much. Those are people of small means.

Mr. VAUGHAN: What were the other two stations?

Mr. PICARD: The other ones were not in connection with sewage. The station at St. Charles, there it is a question of heating.

At the moment the station at St. Charles is heated by two huge stoves that consume a large amount of coal, yet, at the same time there is a central heating system in the station, a furnace installed by the station-master at his own expense or, rather, the station-master who was there before the present one. The necessary installation there would involve not more than say 100 feet of pipe. It would bring about a substantial reduction in the cost of coal and it would mean a great deal of comfort to the passengers because, as you have it now, there are two rooms, one for men and one for ladies, at either end of the station, in each of which there is a huge stove which is kept red hot, while in the centre, in the office where the station-master and the telegraph operator are, they are freezing. In other words, at both extreme ends of the building the stoves make it very hot, while in the centre, in the office, they are freezing.

In the same building there is a furnace. It would require merely the laying of pipes to heat the whole building, and the cost would be less in the way of coal than the cost of installation of the pipes. But there is apparently a principle of the company: that it must not heat the residences of the station-masters. To connect up these pipes would prevent them from separating one from the other, yet it would cost less to heat the whole building including the station-master's house than it cost just for the two public rooms with attendant discomfort to everybody.

Mr. Vaughan: Have you written to us about them?

Mr. Picard: Yes, I wrote twice, but I did not write a third time about the heat.

Now in connection with Ste. Françoise, I received long letters, and I was told that my last letter would be submitted to Mr. Walton's attention, but it has been a long time now.

Mr. Vaughan: These matters are referred back to the officers in charge of that particular section of the line; and the answer that usually comes back is that: after investigation was made the matter was considered to be unnecessary. That is the usual procedure.

Mr. Picard: Would it not be rather due to the fact that these superintendents want to show that their portion of the line makes good profits and they want to keep down expenses. Here is a situation where any disinterested investigator could well verify the facts. The hours of delay of the trains would be very easy to find out; the temperature and the weather is easy to find out. The first petition was sent in about five years ago; but I took charge of the matter only about two years ago, and since then I have received only nice letters and smiles.

Hon. Mr. Chevrier: Do not give up hope, Mr. Picard.

Mr. Picard: And there is another point: at St. Damien on the transcontinental railway, the station-master installed an electric system for his own home. The previous station-master wanted to have an easy life and he extended the wires out to the station platform and put in three lights and paid for it out of his own pocket because he did not want to slip on the ice. But the next station-master who came along cut off the wires and the lights. He did not care to light the station platform at his own expense. At that point you have several institutions. There is a hospital for aged men, and there is a school for about 300 or 400 pupils, and there is also the main branch of an order of nuns.

In connection with the order of nuns, there are a number of old, retired ladies who travel from one place in Canada to another and it may be that they have to use the platform there in the winter time, sometimes in the middle of the night should the trains be later than scheduled, and they have to suffer great discomfort on the station platform; yet the electricity is only about 12 feet away. The railway says it would cost too much to put in electricity on

that platform, yet the electricity is in the home of the station-master and could be installed at very little cost. That is important, but my main point concerns Ste. Françoise because conditions there are not sanitary. In fact, I think the Board of Health for the province of Quebec might well go there and report that the conditions are unbearable.

Mr. MUTCH: Have you emphasized that fact in your reports?

Mr. VAUGHAN: I do think you are mistaken, however, when you suggest that the superintendent might not recommend these things because they would be charged to their districts. In fact, these expenditures would be capital expenditures.

Mr. PICARD: Yes; I do not think they would add very much to the capital structure of the company, to add these things.

Mr. HAZEN: Might I direct the attention of the president of the road to the conditions of the station at Hillsboro, in New Brunswick. The station there was destroyed by fire and, at the present time, they have a very make-shift kind of affair which is not satisfactory to the people in that community. Hillsboro is the largest community in the county of Albert. The Canadian Gypsum Company has a large plant there and it is quite a prosperous community, but I believe it is, at the present time, without an adequate station. I hope the president of the road will be good enough to endeavour to improve it.

Mr. VAUGHAN: We will endeavour to improve it, Mr. Hazen.

The ACTING CHAIRMAN: I notice that it is one o'clock now. We have spent a day and a half on this report and I wonder if it could not be adopted?

Mr. PICARD: I have something in mind, Mr. Chairman; I do not want to ask to spend many many days on this report; yet, on the other hand, we have the argument of the officers of the company, that they are anxious to get back home. I do think they can give us a few days. After all, they are managing public property.

Hon. Mr. CHEVRIER: There is no question of the officers not wanting to stay here for two weeks if necessary. They can stay for three weeks if required, but they have business duties and they should be getting along. The only suggestion that the chairman had in mind was: that perhaps we might pass this first report and, if there were any questions, later on we could come back to it. But, if there is any objection—

Mr. JACKMAN: No, no. May I ask when we expect to get T.C.A. Will it be this week or next week?

Hon. Mr. CHEVRIER: That will depend upon the progress we make with this report. If we do not make any progress this week, we certainly won't get to T.C.A. I hoped that we would finish with the officials of the Canadian National Railways before entering upon the session of T.C.A.

Mr. JACKMAN: I wondered if Mr. Symington would come on Monday or Tuesday?

Hon. Mr. CHEVRIER: I think Mr. Symington would be delighted to come on Friday.

Mr. PICARD: If we could finish with this report, say, tomorrow, then we could take T.C.A. next week.

Hon. Mr. CHEVRIER: Yes, I think so.

Mr. PICARD: Then we would finish entirely with this report this week.

Mr. VAUGHAN: You still have Canadian National West Indies Steamships, but it should not take very long. We spent quite a long time on this report this morning, on the balance sheets, because we thought it would be very interesting to this committee.

Hon. Mr. CHEVRIER: There remain a number of other items to be taken up.

Mr. NICHOLSON: But if we meet twice tomorrow, we should be able to finish up Canadian National business.

Hon. Mr. CHEVRIER: Would it be the intention of the committee to deal with the T.C.A. on Friday?

Mr. PICARD: No, rather next week.

Hon. Mr. CHEVRIER: But next week there will be an international convention meeting in Montreal and Mr. Symington will have to go there.

Mr. PICARD: We might as well postpone it.

The ACTING CHAIRMAN: We will now adjourn until 4.00 p.m.

The committee adjourned at 1.00 p.m. to meet again today at 4.00 p.m.

The committee resumed at 4 o'clock p.m.

The Acting CHAIRMAN: Page 16.

Mr. JACKMAN: We were finishing page 15. There is an item there of $2,500,000 for deferred maintenance in 1945 as compared with $6,500,000 in 1944. I see at the same time that there is no substantial increase in operating expenses for such things as roadway maintenance. There is a slight amount there, $140,000 only. Bridges and trestles are down $600,000. Ties are down and rails are down. I was wondering if the management would explain why it is with apparently less repairs and renewal work done during 1945, presumably because you could not get the men or materials, you did not see fit to set up as much deferred maintenance in that year as in the previous year.

Mr. COOPER: In analyzing the amounts for the two years you would have to take into account that in 1943 there was considerable back time charged into the accounts, and the price of materials increased and wage rates have increased. If you make allowance for all those things you will find that although the gross expenditure is less in 1945 than in 1944 there was an actual increase in the amount provided for maintenance and on that basis it seems reasonable that we should not make as large a provision for deferred maintenance as we did in the previous year.

Mr. JACKMAN: I do not quite understand the item of back pay from 1944 coming into 1945, but we will leave that aside for the moment and if you wish you can explain it later. That will be satisfactory. Assuming the reserve set aside was reasonable in 1944 the price of materials and wages were up during the year which would seem to me to prove my point, if you like, rather than your answer to it, because you have not spent as much during the 1944 operating year and yet you have reserved less for deferred maintenance than you did during the previous year. You did less work maintaining or repairing property and yet you reserved less money.

Mr. COOPER: Taking the back time, if we had in 1944 an amount charged in there that related to 1943—

Mr. JACKMAN: I do not quite understand the back time.

Mr. COOPER: In 1944 certain wage awards were granted which were made retroactive into 1943. They extended back to March, 1943.

Mr. JACKMAN: You are suggesting that the 1944 accounts were upped without any reflection of more work being done.

Mr. COOPER: Absolutely.

Mr. JACKMAN: So that the 1944 amount bore a truer physical relationship than appears on the face?

Mr. COOPER: Yes. That is one item.

Mr. JACKMAN: Does that amount to millions of dollars?

Mr. COOPER: Yes, $5,400,000.

Mr. JACKMAN: That is the amount of back pay you had to charge to 1944 earnings in relation to 1943 work?

Mr. COOPER: That is right. That is not all maintenance of way, but that was the amount. Then in addition, of course, we have $6,500,000 against $2,500,000 for deferred maintenance. Those two items should be extracted from both years before you make the comparison.

Mr. JACKMAN: Those are the two items I am speaking about.

Mr. COOPER: Yes, but they should be extracted before you make the comparison.

Mr. JACKMAN: They are a part of the comparison. How do you mean?

Mr. COOPER: I mean you should deduct them from the total of the expenses for the two years in arriving at the actual expenses for the two years.

Mr. WALTON: I think what Mr. Cooper is saying in effect is that all the other items in this list represent service performed whereas these two do not, and therefore to get the comparison if you are looking at it on the basis of work done and material consumed you would take both those items out of both years.

Mr. JACKMAN: Having done that, in a cursory way all I see on the public accounts is that you spent less money in maintaining the system than in 1944.

Mr. COOPER: Well, we think we spent more. We say we spent more. We have computed we spent in 1945 $2,090,000 more on actual maintenance of way than we did in 1944.

Mr. JACKMAN: Largely accounted for by the back pay?

Mr. COOPER: No, actual work performed in 1945 as compared with 1944. We say we spent more on maintenance in 1945 than in 1944 to the extent of $2,090,000.

Mr. JACKMAN: That does not appear obvious from the operating expenses.

Mr. COOPER: No, it is not obvious because, as I say, you must make the analysis. You must deduct, for example, this item of back pay. You must deduct the item of deferred maintenance. You must deduct the item of amortization of defence projects, and things of that sort. If you do that you will find that the actual maintenance expenses in 1945 exceeded those of 1944, and therefore it seems logical that the provision for deferred maintenance should be less in 1945 than it was in 1944.

The ACTING CHAIRMAN: Are you ready for page 16 now?

Mr. JACKMAN: Of course, I would expect that item of back pay and some of those other things you have mentioned to apply more or less equally throughout all items, but take roadway maintenance. It is $8,705,847 in 1945 as against $8,660,168 in 1944, not very much difference.

Mr. COOPER: No, but if you remember in the $8,660,168 you have a certain amount of back time for 1943.

Mr. JACKMAN: I am assuming that, but I am also assuming the same condition of back time to apply to other items. Take the item of rails.

Mr. COOPER: There is no back time in rails. That is material. There is no back time there. There is no back time in ties.

Mr. WALTON: That is the purchase of the rails, not any labour in laying them.

Mr. JACKMAN: All right. We went over page 14 before I had a chance to ask all the questions that I wanted. Under the heading of capital stock of the Canadian National Railways Securities Trust you have got capital gains there of $19,000,000. How do they arrive?

Mr. COOPER: Chiefly in respect of the repatriation of the British securities. We bought them in at the market price which was lower than the par value.

Mr. JACKMAN: You had capital losses of $2,125,000 during the year, and I see that has an asterisk. How does that arise? I see it is set out down below that it is the loss on the abandonment of a line and the loss applicable prior to 1940 on retirement of rolling stock equipment, $957,000. How much more rolling stock might there be a loss on applicable to the period prior to 1940?

Mr. COOPER: Oh, a very considerable amount.

Mr. JACKMAN: I wonder if you would explain to the committee just how this item arises. It seems a little foreign to us.

Mr. COOPER: It all stems out of the war. Prior to the war, as you know, we were on what we called the retirement accounting basis with respect to rolling stock. As equipment was worn out in service or was destroyed it was retired in the accounts. It was written out of the investment account and the loss was charged to operating expenses.

Mr. JACKMAN: For that year?

Mr. COOPER: For that year. That was the basis on which we made our accounting prior to 1940. When the war broke out it very soon became evident that we would not be making the normal retirements of rolling stock. Every unit of rolling stock that had any service in it would have to be kept going and the retirements of rolling stock were going to be held down to an absolute minimum. We then considered that if we continued our retirement accounting policy that the charges to operating expenses for the retirement of rolling stock would be sub-normal. Therefore we decided to move over to depreciation accounting.

Then we were confronted additionally by the fact that the use of rolling stock under war conditions was going to be very steeply accelerated. We have moved at least twice as much business in the war period as we did prior to the war period. The use of equipment was therefore very much greater, and the acceleration of obsolescence was increased. Therefore we decided that in addition to the ordinary rates for depreciation we would make some additional charges for depreciation, and in addition to the ordinary rates we charged into our accounting additional amounts representing what we thought was the accelerated depreciation which was taking place. Our charges for depreciation in the war period increased up to a figure something like $19,000,000 or $20,000,000 a year.

Under those conditions where we were making very substantial charges to expenses, building up a reserve in a very rapid way, and making almost no retirements of equipment, we felt that we could take care of any retirements which did take place through the depreciation reserve. Now we have come to the end of the war. We have, as the report says, reconsidered our depreciation allowances. We have established a depreciation rate equal to that of the class one roads of the United States, and we feel that the charge to the depreciation reserve of retirement losses also should be reconsidered.

We commenced to set up in 1940 a reserve for depreciation which has accrued since 1940. We did not set up and we have no reserve with respect to the depreciation accrued prior to 1940. All equipment which we had in service at that date had a certain amount of accrued depreciation attached to it. We considered it would be incorrect to charge that prior accrued depreciation to a reserve established to provide for depreciation which accrued subsequent to 1940,

and under ordinary company accounting that prior depreciation would be charged not to current operating expenses and not to depreciation reserve but to profit and loss.

Mr. JACKMAN: Let me follow that carefully. You say under ordinary company accounting you would not charge depreciation on the pre-1940 property to operating account?

Mr. COOPER: No, otherwise you would have a double charge in your current year's accounts. Our depreciation charge in 1945 measures the true depreciation which is chargeable to 1945 operations.

Mr. JACKMAN: But at 1940 you had a lot of accrued depreciation, and you have no place to write it off the accounts except to create a loss; is that it?

Mr. COOPER: Except to charge it to surplus account or profit and loss account or in our case to proprietor's equity.

Mr. JACKMAN: To lessen the proprietor's equity in addition to the deficit, if there was a deficit. In that one year you wrote off $957,000; is that right?

Mr. COOPER: Yes.

Mr. JACKMAN: To that account?

Mr. COOPER: Yes.

Mr. JACKMAN: How much do you expect to have to write off in regard to all the equipment which had depreciation on it prior to 1940 for which you have no reserve?

Mr. COOPER: That is a difficult question to answer. When we have built up this reserve to a level at which we feel it can absorb all retirement charges.

Mr. JACKMAN: You mean the current depreciation reserve?

Mr. COOPER: Yes.

Take the American railways, they have been depreciating since back in 1907 and to-day they have a very substantial depreciation reserve, one which possibly represents fifty per cent of the value of the equipment they have. Our depreciation reserve in line with the value of the equipment is small, we have only been on depreciation accounting the past five years. When we feel that the depreciation reserve is sufficiently high to take care of our retirement problem, we shall charge all equipment retirements against that account. When that will occur, I do not know exactly.

Mr. JACKMAN: But on the basis of the losses which you have had to face, and which you will have to face over the coming years, would it not be an approximate figure to take the total value of rolling stock now? And, as you say, the rule of thumb might be that fifty per cent would be depreciated—you mentioned that figure.

Mr. COOPER: No, I said that was in respect to the lines in the United States.

Mr. JACKMAN: What I am suggesting is that if the equipment cost a hundred dollars it would be half worn out—some of it entirely worn out and some of it brand new—would that be a fair statement of the condition of the equipment in relation to its cost?

Mr. COOPER: No, I didn't quite mean that. I meant that if you had been on a depreciation basis long enough you might find that your reserve was equal to about fifty per cent of the value of the equipment itself. But if, as in our case, a considerable amount of equipment has been bought in recent years the situation would be different. It would depend on the life of the equipment.

Mr. JACKMAN: What I am endeavouring to arrive at is, how large would losses amount to over the years before you have your present reserve built up through yearly additions so you could get away from this type of accounting and charge everything to depreciation reserve?

Mr. COOPER: We have not made that computation.

Mr. JACKMAN: Would that be fifty million or a hundred million dollars?

Mr. COOPER: I would not like to guess. In this committee last year you asked for a statement with respect to our depreciation accounting policy. We gave it to you and it is in the minutes of this committee. On this very subject we said that we intended to charge the loss prior to 1940 into the proprietors' equity account.

Mr. JACKMAN: I am talking now about the extent to which it might go. I have no means of guessing, and I think we should be informed as to whether it might be fifty million or a hundred million, on all your equipment prior to 1940.

Mr. COOPER: If you will be satisfied with a rough guess, I would put it at $100,000,000.

Mr. JACKMAN: $100,000,000 of a loss?

Mr. COOPER: No, on the depreciation prior to 1940.

Mr. JACKMAN: But you have no means of knowing when you might transfer to the method of current depreciation, you would have to build up your reserve to cover that?

Mr. COOPER: That is so.

Mr. JACKMAN: And that $100,000,000 more or less would be a direct charge to proprietors' equity account?

Mr. COOPER: That is so. I might mention too that the Canadian Pacific having the same kind of a situation, dealt with it by taking a lump sum, if I remember rightly it was $20,000,000 in 1943, which they charged to surplus account and credited to depreciation reserve; and in addition to that they took a figure, as I remember it in 1940, of something like $48,000,000 which they charged to investment account and credited depreciation reserve; and in that method they increased their depreciation reserve by between sixty and seventy million dollars. We have not done anything of that sort.

Mr. JACKMAN: But they were justified in doing that. As I recall the conversations a year ago in this committee, when they had a locomotive which cost $25,000 and it was replaced by one which cost $100,000, the new locomotive would stand in the books at $25,000, and $75,000 additional would be charged to capital expense for the year.

Mr. COOPER: No, not at all.

Mr. JACKMAN: And the purpose of this reserve was to cover these items, when they had assets which had a limited value it would fall into this reserve until they built up a depreciation account which could meet current demands.

Mr. COOPER: You are speaking of the justification of the method followed by them?

Mr. JACKMAN: Do they do something that is not sound accounting?

Mr. GIBSON: They pay income tax on it.

Mr. JACKMAN: And that is sound accounting. Why should the C.N.R. not do likewise, instead of allowing these deficits which are charged to operating each year?

Mr. COOPER: I am afraid that is a question that I am not in a position to answer.

Mr. JACKMAN: After all, the C.P.R. accounts are audited by an equally reputable firm of auditors, and they all seem to pass muster. If you have the same conditions as they do, why could you not set up a reserve for depreciation similar to what they have?

Mr. COOPER: Well, I am sure of one thing, Mr. Jackman; that if we had come here with a charge to investment account of X dollars, and a credit to depreciation reserve account of X dollars, we should have been very closely questioned about it.

Mr. JACKMAN: I do not think the members of this committee are any more careful of the accounts than are the shareholders of the C.P.R. with respect to C.P.R. accounts. I have not seen anything raised on that item. However, the answer to it is that we are going to be faced with a yearly deficit, a loss of rolling stock equipment, which may in the aggregate amount to $100,000,000.

Mr. COOPER: No, I do not say that, Mr. Chairman; I said, when our reserve in our judgment is sufficient to absorb these proper charges we will discontinue charging against our proprietors' equity account.

Mr. JACKMAN: You can only build up that depreciation reserve by over depreciating currently and have it accumulate.

Mr. COOPER: I do not think that a charge of three and a third per cent for the reserve fund is disproportionate.

The ACTING CHAIRMAN: Gentlemen, this has been going on for half an hour as an examination by one member of the committee. Do you not think that the other members of the committee should have a chance to ask questions?

Mr. MUTCH: I am inclined to question whether there is any point in all this discussion. I have been very silent, for me, for the last two or three days. There is a point in connection with these things, and as the chairman has raised it, I intend to speak to it. It is not very interesting to sit and listen to one man discussing a subject hour after hour. When it touches on the auditing of the accounts, I think it is important, but when it gets into the realm of crystal gazing, as is being done now, I think it is an imposition on the members of the committee. I wasn't going to raise the point, but the chairman did. I look upon this committee as a committee examining the accounts, as being here for the purpose of asking questions and getting an explanation of the audit of the accounts. I do not take that to mean that we are free to go through all the ramifications of railroading and auditing accounts of railroads all over the country. I for one think it is being over-done.

Mr. JACKMAN: I disagree with that view, Mr. Chairman, I should like to have my question answered. Mr. Cooper, I asked you a question and you were answering, very kindly. I wonder if you would let me have the rest of the answer?

Mr. COOPER: I don't think I remember it.

Mr. JACKMAN: You were giving an answer in considerable detail which I was endeavouring to digest. The question was in regard to what the amount of the reserve would be. I suggested that eventually you would be faced with a loss of $100,000,000 more or less on capital equipment and rolling stock equipment in the service prior to 1940, and you said that would not be the case because three and a third per cent rate of depreciation would build up a fund sufficient to obviate taking an actual loss on those retirals and the retirements could be made directly to the depreciation account; and I said eventually we will have over $100,000,000 loss. You explained to me that we would not. I have given you back your answer as far as you gave it to me when you were interrupted by the chairman at one point. Perhaps you will finish.

Mr. COOPER: If you will accept a suggestion, I would say that ten years from now our depreciation reserve should be sufficiently high to absorb those items.

Mr. JACKMAN: In other words, now you are taking these losses and charging them directly to capitl account, whereas in future you hope you will have built up a reserve which will enable you to charge them directly to depreciation account.

Mr. COOPER: Yes, that is correct.

The ACTING CHAIRMAN: Are you ready for page 16 now? The members might ask questions on this page? Are there any questions to be answered about it?

Mr. NICHOLSON: What policy is followed in providing for injuries sustained by persons in your employ, do you make compensation in different cases?

Mr. COOPER: Yes. The measure of compensation to employees injured on duty would be covered by the Provincial Workmen's Compensation Act.

Mr. NICHOLSON: You have no separate fund of your own out of which you take care of injuries to persons in your employ? Have you any special fund, do you pay a certain percentage into that fund?

Mr. COOPER: We charge that directly to our expenses.

Mr. NICHOLSON: How about payments to the Provincial Workmen's Compensation fund in the various provinces. Do you make payments to those funds?

Mr. COOPER: There are payments which are based on the payroll in the case of some of the provinces, they assess us three per cent of our payroll.

Mr. JACKMAN: You have no alternative there.

Mr. COOPER: That payment will be charged to our operating expense.

Mr. NICHOLSON: And if the employee loses an arm, let us say in Saskatchewan, the basis of compensation would be that fixed under the Workmen's Compensation Act in Saskatchewan?

Mr. COOPER: Definitely.

The ACTING CHAIRMAN: Any questions on page 16?

Mr. MOORE: Just before you go on to that, Mr. Chairman, I have a question to ask in reference to the Hudson Bay railway. There are three divisions on that road between The Pas and Churchill, two of them are exceedingly long, and I understand there is only one train a week up to that part of the country and that train does a lot of switching as well as ordinary work at the different stops or stations along the line, with the result that it is a particularly long day for the crew. I understand that the crews have asked the railway company to consider placing automatic stokers on the engines used on those lines. Could we have some information on that?

Mr. WALTON: Nothing has reached me on that. Our ordinary practice in regard to the application of automatic stokers on locomotives is, that the larger locomotives are so equipped but not the smaller locomotives. If I remember right, we are using, or will be using on the Hudson Bay Railway locomotives of approximately 40,000 pounds tractive effort, and these ordinarily are not equipped with stokers. As to whether in the case of which you speak some special arrangement would be warranted there I could not say at the moment, I would have to look into it. It is true those subdivisions are long, and also they have very severe winter weather to contend with. It may be that some special arrangement should be made but I would want to look into it before saying definitely.

Mr. PICARD: There is one thing I would like to ask you about: do you still have investments in Europe, do you still have buildings over there?

Mr. VAUGHAN: We own our office in London, England, and we own the building in Paris.

Mr. PICARD: Were they damaged to any considerable extent during the war?

Mr. VAUGHAN: Our building in London suffered to the extent that some bombs dropped near it and broke the windows, otherwise the building was not greatly affected.

Mr. PICARD: I was wondering if you had any other assets in Europe besides those two buildings.

Mr. VAUGHAN: Those are the only two.

Mr. PICARD: Your other offices which you operated before the war were in leased buildings?

Mr. VAUGHAN: Yes, rented.

Mr. NICHOLSON: There is one other item there to which I would like to direct a question. I see under traffic, in connection with colonization, agriculture and natural resources, you have an amount of $202,627. Do we have any corresponding item showing the revenue from operations of that kind?

Mr. VAUGHAN: I do not think you will see any compensating item. We have a substantial department engaged in immigration work and colonization work, and in agricultural work of all kinds. They have offices in different parts of the country. We have offices in London, England. These people are engaged generally in doing work which produces traffic for the railway.

Mr. NICHOLSON: How about your lands department; how much land is owned by the railway?

Mr. VAUGHAN: Have you got a statement of land unsold? I do not remember what it is; it would be a few hundred thousand acres; I do not remember the figures. We have not got a great deal of land left.

Mr. NICHOLSON: Would there not be some item showing the revenue produced by that land?

Mr. VAUGHAN: It all comes into the general accounts. If it would be of advantage to you we would be glad to give you a statement showing the amount of land sold at the end of the year, the average price and the acreage.

Mr. COOPER: The income derived from land during 1945 was $498,000, land sales have been very good and the collections under land contracts have been good.

Mr. VAUGHAN: We will give you a statement to that effect.

Mr. NICHOLSON: Thank you.

Mr. PICARD: What about the state of the Paris building during the war as far as income was concerned?

Mr. VAUGHAN: We were rather fortunate in that respect, Mr. Picard. You know we have a French company and our man in charge there was a Swiss.

Mr. PICARD: Is that company operating? It is not a wholly owned subsidiary company of your company?

Mr. VAUGHAN: No. We have the hotel leased to the Hotel Scribe. When the Germans moved in, I think they made Hotel Scribe the headquarters of their Gestapo operations. Mr. Regamey was able to collect rental from the Germans during the war because he was a Swiss. In fact, he invested some of the rentals derived from the Germans, and made some more money.

Mr. PICARD: I know the man personally. He is a very good man. But, I wondered if the Germans paid rental during their occupation?

Mr. VAUGHAN: From 1940 to 1945 we collected 8,500,000 francs, the equivalent to $80,058.

Mr. PICARD: And you collected even from the Germans, while they occupied it?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: Are there any questions on page 17?

Mr. MUTCH: Where is that guy now, we need him.

Mr. PICARD: I don't want to embarrass the officers of the Canadian National Railway Company, but would it be in order for them to give us a list of their officials together with their salaries? The other day I received a report from General Motors in which they listed all their people.

Mr. VAUGHAN: They list their men over $100,000. We would be glad to do that too.

Mr. PICARD: No, no, they have got men down as low as $15,000 or $20,000. That report is sent to all shareholders regardless of the number of shares they own in the company. I wonder if this company, since it is a company which is owned and operated by the Dominion of Canada and operated with Canadian money could not supply such a list. I am sure that our officers are not paid comparably to the officers of American companies, nevertheless I think it would be interesting, although I do not want to embarrass you.

Mr. VAUGHAN: It has never been done, Mr. Picard, and I do not think it would be fair to our officers to do it.

Mr. PICARD: Why not? We know the salary of the Prime Minister and so on?

Mr. VAUGHAN: We would be ashamed to have our salaries published in comparison to some of the officials of other railways.

Mr. PICARD: Well, then, what do you think about members of the cabinet and judges of the High Court and so on, their salaries as compared to their value and the indemnity that they get?

Mr. VAUGHAN: Everybody is on the same basis then, and that is different.

Mr. PICARD: I think that is a measure that should be pursued a little further. After all, this management is not that of a company of private shareholders; it is a company for the whole country generally, and I think the country should know how much is paid to its own civil servants, although you are not civil servants in the correct sense of the word; yet you are administering public property. Just as we have a "blue book" published showing the salaries paid to all officials of the Canadian government, we should have a similar "blue book" with respect to the Canadian National Railways.

Hon. Mr. CHEVRIER: In that connection, Mr. Picard, I think, as far as I am concerned I would like to support what the president has said about that, because I am informed by the officers of the Department of Transport that it has not been the custom nor the practice to do so. Nevertheless, the committee has the power, if it wants, to obtain from the officers of the railway, the amount of their salaries. But I do suggest, very respectfully, to this committee that that would not be a good thing to do. One reason for my taking that stand is that it was suggested by the president that if the salaries were published, in comparison to what the Canadian Pacific Railway officials get, perhaps the list would not stand out very well.

Mr. JACKMAN: Unfair to labour?

Hon. Mr. CHEVRIER: Perhaps there is something in that remark; and for that reason I suggest to the committee that the opinion of the president of the Canadian National Railways be respected in that regard.

Mr. HAZEN: Do you think that the salaries of these officials would not compare favourably with those paid by the Canadian Pacific Railway?

Hon. Mr. CHEVRIER: I have the president's statement for it, and I say the same thing too.

Mr. VAUGHAN: Except in a few instances, the executive salaries are considerably higher than those paid to Canadian National officers, I think, at one time, the salaries of the civil servants were published in a "blue book" but I do not think they are so published any more.

Mr. Mutch: Oh yes, and their expenses.

Mr. Picard: I do not think we can treat the Canadian National as a private company because its operations are financed by the government; so I think any official of the government, directly or indirectly, should have his salary known. You say that such a list would not compare favourably but you know, perfectly well, inside your company what each corresponding man in the Canadian Pacific Railway Company gets. I do not think that it would be disturbing to the public.

Hon. Mr. Chevrier: It would make this difference, Mr. Picard—

Mr. Vaughan: It would be very humiliating to Canadian National officers to have their salaries published.

Hon. Mr. Chevrier: Not only that, it would make this difference; and I say this with respect to your last statement that the Canadian National Railways might lose some of its best officers to other countries and to other railway companies if their salaries were to be published.

Mr. Picard: Because the public would know?

Hon. Mr. Chevrier: No, not necessarily that, but because other railway companies would know.

Mr. Picard: Are you suggesting now that the Canadian Pacific Railway does not know what Canadian National officers get?

Hon. Mr. Chevrier: I do not see how they would.

Mr. Picard: I think my request is a fair one. The same thing applies to civil servants and to any other public body. I do not see any objection to it at all.

Hon. Mr. Chevrier: But it has never been the practice of the committee to do so.

Mr. Picard: There are many things which have never been our practice before.

Hon. Mr. Chevrier: On the other hand I think the committee has the power to insist; but I ask the committee not to insist.

Mr. Jackman: While no one likes to hold a person's own business more inviolate than I do, myself, yet I think we are coming to a day, particularly when public owned corporations and corporations in which there are public shareholders will publish these matters on the ground of public interest or on the ground of a shareholder's interest. We find that to be the case in the United States now. There they have to indicate what the salaries of their senior executives are. I do not think any real harm would come about from the publication of the salaries paid by private companies. They publish the aggregate of their executives' salaries and their lawyers' fees.

This is not a company taxable under the Income Tax Act and it does not have to do so; so, while I would not press the point at the present time I do feel that institutions such as the Bank of Canada and perhaps the Canadian National Railways—and if we revise the Companies Act I think we should make the same terms applicable to the Canadian Pacific and perhaps to all private companies. I do not think there is as much objection as some of us have felt in the past, with respect to the publication of salaries. I think it is pretty well known what salary the president of the Canadian National Railways gets. In fact, I can make a fair stab at it myself.

As to the point of taking men away from the system, I think it is only fair to an officer of the system that he be given a chance to improve his position at the hands of a competitor, if he chooses to go. I think it would be detrimental

to the best interests of our people if executive salaries should not be given out. A man may be doing a bigger business and rendering more service to the people thereby. I think times are changing and these things should not be kept from the public. I think the interests of the public and of the shareholders in private companies is overshadowing gradually the personal interest concerning non-disclosure of salaries.

In the United States we now have publication of those salaries. It is merely a question of educating the people to the fact that such salaries exist and are paid because of merit and because the law of supply and demand warrants the payment of such salaries.

Mr. Vaughan: But it would be embarrassing in many ways. It would be embarrassing to our other officers in the company. Our officers do not know what other officers get, except those men who handle the payrolls. We would have all kinds of complaints. For example, a man getting $5,000 would say: here is another man getting $10,000 and he is no better than I am.

Mr. Jackman: But there may be unsound reasons for the other man getting $10,000?

Mr. Vaughan: That is a matter for the management to decide.

Mr. Mutch: The capacity to evaluate the wages of management does not exist in the average shareholder, either the shareholder of a public corporation or of a private corporation. In general I would be opposed to the suggestion of changing the Companies Act as you suggest, to disclose these things with respect to private companies. I would hesitate to urge that it be done in this company; although I do agree, that the temper of mankind being what it is, that is probably what will eventually take place, and there will be a demand for it. But I see no reason, certainly not at the moment.

Mr. Picard: But it exists in the States.

Mr. Gibson: Yes, the income tax authorities publish that information in the States. I feel now, since the subject has been raised, that the public will wonder why the salaries are not available to them.

Mr. Vaughan: Unfortunately the worth of a good many men is judged by their salaries. It is very unfortunate. Some of our men are worth twice as much as they are getting. Many of them have been offered positions at salaries twice as much as they are getting; but a good many of us have stayed with the Canadian National just because we have a desire to see this thing through and to serve the country. Speaking for myself, I have been offered positions at 100 per cent more salary than I am getting.

Mr. Jackman: And if you had accepted them, Mr. Vaughan, the public of Canada would have suffered.

Mr. Vaughan: Thank you for your comments.

The Acting Chairman: Have you finished your discussion with respect to this?

Mr. Jackman: If that is the case I think it is high time that the Canadian people knew just the extent of the service rendered by some of these officials and the sacrifice they make as compared to officials of American lines. I do not see how it would hurt, Mr. Vaughan; but I won't press the point at the present time. I do think that we are going to come to it and I should like to see us come to it willingly, on the part of all concerned.

The Acting Chairman: Will you please turn to the next page, page 18? Over to page 20. Are there any questions to be asked about page 20? Then page 21.

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1945

Road:		
New Lines Constructed	$ 1,318,151 84	
Rails and Fastenings	526.122 52	
Tie Plates and Rail Anchors	776,040 95	
Ballast	361.225 60	
Large Freight Terminals	*366,115 30*	
Yard Tracks and Sidings	509.804 95	
Roadway Machines	561,053 92	
Bridges, Trestles and Culverts	446,158 71	
Stations and Station Facilities	420,190 37	
Shops, Enginehouses and Machinery	396,880 94	
Water Supplies	45,123 51	
Fuel Stations	97,188 47	
Signals and Interlockers	42,416 70	
Telegraphs—Railway	62,265 19	
Telegraphs—Commercial	272,834 67	
Assessments for Public Improvements	37,185 56	
Land	*496,413 82*	
General, including Additions and Betterments	335,022 09	
		$ 5,345,136 87
Equipment:		
Equipment Purchased or Built	$ 10,809,111 90	
Equipment Retirements	*1,321,293 90*	
General Betterments to Equipment	255,147 85	
Equipment Conversions	*253,289 05*	
Express and Miscellaneous Equipment	74,484 80	
		9,564,161 60
Hotels		12,009 69
Separately Operated Properties		*2,212,103 60*
Net Additions and Betterments during 1945		$ 12,709,204 56

Ledger Balance 1st January, 1945		$ 2,027,054,482 00
Net Additions and Betterments during the year	$ 12,709,204 56	
Abandonment of 27·62 miles of St. Lin Subdivision	*1,167,121 47*	
Loss (applicable to period prior to 1940) on retirement of rolling stock equipment	*957,967 06*	
		10,584,116 03
Ledger Balance at 31st December, 1945		$ 2,037,638,598 03

FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1945	Interest Accrued 1945
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	$ 1,480,965 59	$ 75,024 41
5% G.W. Perp. Debtr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	864,855 33	43,063 92
4% Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	6,036,822 60	251,098 24
4% Nor. Rly. Perpetual Debtr. Stock	G.T.R.	July 31, 1884	Perpetual	27,457 73	1,098 31
3% 1st. Mortgage Bonds	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130 00	793,953 90
4% Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074 00	319,962 96
3% 1st. Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768 33	34,321 46
3½% 1st. Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,638,941 49	197,420 88
6½% Sinking Fund Debenture Bonds	Can. Nor.	July 1, 1921	July 1, 1946	23,752,000 00	1,543,845 00
3½% 1st. Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	551,505 27	19,302 68
3½% 1st. Mortage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,620,293 87	126,163 77
5% 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000 00	2,500,000 00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000 00	2,886,120 00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500 00	2,886,425 00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000 00	866,900 00
4¾% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000 00	2,303,560 00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,386,000 00	3,031,560 00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000 00	2,160,990 00
3% 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000 00	750,000 00
3% 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000 00	600,000 00
2¼% 7 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1946	15,000,000 00	337,500 00
3% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000 00	1,050,000 00
Total Issues Guaranteed by Dominion of Canada				$525,688,314 21	$22,778,310 53
GUARANTEED BY PROVINCE OF NEW BRUNSWICK:					
4% 1st. Mortgage Debenture Stock	St. J. & O.	May 14, 1912	June 1, 1962	$ 622,657 40	$ 24,906 29
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st. Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	806,328 81	31,958 37
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,157,945 46	52,138 73
Total Issues Guaranteed by Provincial Governments				$ 2,586,931 67	$ 109,003 39

FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1945	Interest Accrued 1945
EQUIPMENT TRUST ISSUES:					
2½% Series "O"	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	$ 2,860,000 00	$ 92,354 17
2¾% Series "P"	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	4,100,000 00	122,489 58
2½% Series "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	2,600,000 00	73,125 00
2½% Series "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	3,127,000 00	87,675 00
Total Equipment Trust Issues				$ 12,687,000 00	$ 375,643 75
OTHER ISSUES:					
4% Canada Atlantic 1st. Mtge. Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	9,950,364 00	397,743 41
4% 1st. Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000 00	6,000 00
4% 2nd. Mtge. Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,575,016 00	143,000 64
4% 2nd. Mtge. Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,146,364 00	124,807 96
4% 1st. Mtge. Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,494 00	86,099 76
4% Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	4,065,433 26	160,678 15
4% Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,877 40	35,703 45
4% Perpetual Cons. Debenture Stock	C.N.Q.	Oct. 1906	Perpetual	465,545 33	18,641 28
4% 1st. Mtge. Perp. Debenture Stock	Q.& L. St. J.	June 1, 1912	Perpetual	314,299 07	12,571 96
4% 1st Mortgage Bonds	G.T.W.	Nov. 30, 1900	July 1, 1950	6,527,336 00	261,237 86
4½% 1st. Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000 00	18,000 00
4% 1st. Mortgage Gold Bonds	M. & P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000 00	8,000 00
5% Indebtedness to Province of N.B.	Can. Nat.	Sept. 3, 1929	Various	380,022 60	24,192 97
Interest on Securities retired in 1945				—	1,462,149 45
Total Other Issues				$ 32,217,751 66	$ 2,758,826 89
Total Debt held by Public (including therein $5,745,864.12 par value held in Special Funds and Accounts) as per Balance Sheet				$ 573,179,997 54	$ 26,021,784 56

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.
This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

Mr. HAZEN: I see an item: new lines constructed. How many miles of new lines were constructed?

Hon. Mr. CHEVRIER: Did we build any new lines during the war?

Mr. WALTON: 14 miles and a fraction.

Mr. MUTCH: The Montreal Terminal.

Mr. NICHOLSON: Are any new lines being considered?

Mr. VAUGHAN: We have nothing under construction at the present time. We have quite a few demands for branch lines, but no action has been taken on them as yet.

The Acting CHAIRMAN: Page 22? Page 23.

Hon. Mr. CHEVRIER: Pages 24 and 25?

DOMINION OF CANADA—LOANS

	Principal outstanding at Dec. 31, 1945	Interest accrued 1945	Average Interest rate
Loans for repatriation of U.K. securities	$391,179,395 36	$13,684,939 40	3·50%
" " debt redemption	195,264,135 50	4,075,917 81	*2·47%
" " new rolling stock	73,851,082 26	2,058,755 90	2·95%
" " working capital	13,906,999 71	486,744 98	3·50%
	$674,201,612 83	$20,306,358 18	3·14%

* Includes premium on U.S. funds.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000 00	$ 240,000 00	$ 240,000 00
Canadian Government Merchant Marine, Limited	800 00	800 00	800 00
Central Vermont Transportation Company	200,000 00	50,000 00	20,000 00
Chicago & Western Indiana Railroad Company	5,000,000 00	1,000,000 00	1,000,000 00
The Detroit & Toledo Shore Line Railway Company	3,000,000 00	1,500,000 00	1,500,000 00
Detroit Terminal Railroad Company	2,000,000 00	1,000,000 00	1,000,000 00
Northern Alberta Railways Company (representing amount paid up, i.e. 10%)	625,000 00	312,500 00	312,500 00
The Ontario Car Ferry Company (Limited)	500,000 00	250,000 00	179,007 53
The Public Markets, Limited	1,150,000 00	575,000 00	575,000 00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600 00
The Toronto Terminals Railway Company	500,000 00	250,000 00	250,000 00
The Toledo Terminal Railroad Company	4,000,000 00	387,200 00	387,200 00
Trans-Canada Air Lines (representing amount paid up, i.e. 92%)	4,600,000 00	4,600,000 00	4,600,000 00
Vancouver Hotel Company Limited	150,000 00	75,000 00	75,000 00
			$10,140,107 53
BONDS:			
Northern Alberta Railways Co. 1st Mortgage Bonds	$31,530,000 00	$15,765,000 00	$15,765,000 00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,810,000 00	12,905,000 00	12,905,000 00
			$28,670,000 00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 2,320,770 09
The Railroad Credit Corporation			53,516 83
Railway Express Agency, Incorporated			145,465 22
Vancouver Hotel Company Limited			12,284 01
			$ 2,532,036 15
			$41,342,143 68

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

At 31st December, 1945, Canadian National Railway Company had subscribed for $5.000,000 of the Capital Stock of the Air Lines on which total call has been $4,600,000.

NORTHERN ALBERTA RAILWAYS COMPANY:

At 31st December, 1945, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company on which total call has been $312,500.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3.000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800.000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68 per cent.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1945, are:—

Issued for "common" property	$39.973,019 39
Issued for "exclusive" property	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1945, is $17,971,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

The ACTING CHAIRMAN: Page 24 and page 25; has any person any questions to ask? Companies comprising the Canadian National Railways System?

Mr. PICARD: Yesterday I was not quite sure whether I got the information correct about the July 1946, 6½ per cent sinking fund bonds, maturing on July 1, 1946. Are they to be redeemed?

Mr. COOPER: They will be redeemed.

Mr. PICARD: Is the financing done?

Mr. COOPER: Not yet.

Mr. PICARD: Have you any idea on what basis it will be? 6½ per cent?

Mr. COOPER: We expect to finance that at 2 per cent.

Mr. PICARD: That is quite a large amount.

Mr. COOPER: Yes; it would, however, save over $1,000,000 per annum.

Mr. PICARD: Would that be a public issue or government financed?

Mr. VAUGHAN: That would be borrowing from the government.

Mr. PICARD: It would be borrowing from the government to replace them.

Mr. NICHOLSON: What happened to those 2¼, 7-year guaranteed bonds?

Mr. COOPER: We borrowed $15,000,000 from the government at 2⅛ per cent.

Mr. PICARD: Did you say yesterday that you did not consider it good policy to go to the public for that?

Mr. COOPER: No, sir, we indicated that the railway would probably go into the market in the near future.

Mr. VAUGHAN: Those have been definitely arranged for, Mr. Picard.

The ACTING CHAIRMAN: Pages 24 and 25.

Mr. EMMERSON: Mr. Chairman, unfortunately on account of the flag committee I was unable to be here earlier in the afternoon. There were one or two questions that I wanted to ask. They are on page 16 and it would seem as though we have gone by operating expenses. I wonder if I might be permitted now or later on to ask those questions.

The ACTING CHAIRMAN: May we complete this before you ask those questions? Pages 24 and 25. Is there anything on page 27?

Mr. JACKMAN: Did you rule that he could ask them?

The ACTING CHAIRMAN: Yes, afterwards.

Hon. Mr. CHEVRIER: The chairman suggested that we get through with these pages and then perhaps Mr. Emmerson could ask his questions afterwards.

The ACTING CHAIRMAN: Page 27.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000 00
2	The Canadian National Railways Securities Trust	381,711,556 78
		$399,711,556 78

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340 00	$ 119,440 00
4	The Bay of Quinte Railway Company	24	$ 1,395,000 00	
5	The Bessemer and Barry's Bay Railway Company	24	125,000 00	
6	*Brooksay Realty Company	30	2,000 00	
7	*Canada Atlantic Transit Company	1	219,000 00	
8	*Canada Atlantic Transit Company of U.S.	38	250,000 00	
9	The Canadian Express Company	1	1,768,800 00	
10	Canadian National Electric Railways	24	1,750,000 00	
11	Canadian National Express Company	25	1,000,000 00	
12	Canadian National Land Settlement Association	1	....	
13	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573 92	
14	*Canadian National Realties, Limited	24	40,000 00	
15	Canadian National Rolling Stock Limited	1	50,000 00	
16	*Canadian National Steamship Company, Limited	46	15,000 00	
17	Canadian National Telegraph Company	24	500,000 00	
18	*Canadian National Transportation, Limited	1	500 00	
19	The Canadian Northern Alberta Railway Company	24	3,000,000 00	
20	Canadian Northern Manitoba Railway Company	24	250,000 00	
21	The Canadian Northern Ontario Railway Company	24	10,000,000 00	
22	Canadian Northern Pacific Railway Company	24	25,000,000 00	
23	The Canadian Northern Quebec Railway Company	24	9,550,000 00	3,849,200 00
24	The Canadian Northern Railway Company	1	18,000,000 00	
25	The Canadian Northern Railway Express Company, Limited	24	1,000,000 00	
26	Canadian Northern Steamships, Limited	24	2,000,000 00	
27	Canadian Northern System Terminals (Limited)	24	2,000,000 00	
28	Canadian Northern Western Railway Company	24	2,000,000 00	
29	Cannar Oils Limited	1	100 00	
30	*The Centmont Corporation	32	176,400 00	
31	The Central Ontario Railway	24	3,331,000 00	
32	Central Vermont Railway, Inc.	1	10,000,000 00	
33	Central Vermont Terminal, Inc.	32	5,000 00	
34	*Central Vermont Transit Corporation	30	5,000 00	
35	*Central Vermont Warehouse, Inc.	30	5,000 00	
36	The Champlain and St. Lawrence Railroad Company	1	50,000 00	
37	*Consolidated Land Corporation	49	64,000 00	
38	Continental Realty & Holding Company	14	90,000 00	
39	*The Dalhousie Navigation Company, Limited	24	50,000 00	
40	Duluth, Rainy Lake & Winnipeg Railway Company	42	2,000,000 00	
41	Duluth, Winnipeg and Pacific Railroad Company	42	100,000 00	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Conc.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
42	Duluth, Winnipeg and Pacific Railway Company..	24	3,100,000 00	
43	*Grand Trunk-Milwaukee Car Ferry Company.....	49	200,000 00	
44	The Grand Trunk Pacific Branch Lines Company.	46	200,000 00	
45	*The Grand Trunk Pacific Development Company, Limited	46	3,000,000 00	
46	The Grand Trunk Pacific Railway Company	1	24,940,200 00	
47	The Grand Trunk Pacific Saskatchewan Railway Company	46	20,000 00	
48	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	46	501,000 00	
49	Grand Trunk Western Railroad Company (Common)	1	20,000,000 00	
	Grand Trunk Western Railway Company (Preferred)		25,000,000 00	
50	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	17	373,625 00	6,925 00
51	The Halifax and South Western Railway Company	24	1,000,000 00	
52	*Industrial Land Company	49	1,000 00	
53	International Bridge Company	1	1,500.000 00	
54	The James Bay and Eastern Railway Company..	24	125,000 00	
55	The Lake Superior Terminals Company Limited..	24	500,000 00	
56	The Maganetawan River Railway Company	1	30,000 00	
57	Manitoba Northern Railway Company	1	500,000 00	
58	The Marmora Railway and Mining Company	24	128,600 00	
59	The Minnesota and Manitoba Railroad Company.	24	400,000 00	
60	The Minnesota and Ontario Bridge Company ...	24	100,000 00	
61	Montreal and Province Line Railway Company..	30	1,000,000 00	
62	*Montreal and Southern Counties Railway Company	1	500,000 00	165,600 00
63	The Montreal and Vermont Junction Railway Company	32	197,300 00	
64	*Montreal Fruit & Produce Terminal Company, Limited	1	500 00	
65	*The Montreal Stock Yards Company	1	350,000 00	
66	*The Montreal Warehousing Company	1	236.000 00	12,240 00
67	Mount Royal Tunnel and Terminal Company, Ltd.	24	5,000,000 00	
68	Muskegon Railway and Navigation Company	49	161,293 00	
69	*National Terminals of Canada, Limited	1	2,500 00	
70	National Transcontinental Railway Branch Lines Company	1	500 00	
71	*The Niagara, St. Catharines and Toronto Railway Company	24	925,000 00	
72	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	71	100,000 00	
73	*The Oshawa Railway Company	1	40,000 00	
74	The Ottawa Terminals Railway Company	1	250,000 00	
75	The Pembroke Southern Railway Company	1	107,800 00	
76	*Prince Rupert, Limited	1	10,000 00	
77	The Quebec and Lake St. John Railway Company	24	4,508,300 00	489,160 00
78	The Qu'Apelle, Long Lake and Saskatchewan Railroad and Steamboat Company	24	201,000 00	
79	*Rail & River Coal Company	1	2,000,000 00	
80	St. Boniface Western Land Company	24	250,000 00	
81	The St. Charles and Huron River Railway Co....	24	1,000 00	
82	St. Clair Tunnel Company	1	700.000 00	
83	*The Thousand Islands Railway Company	1	60,000 00	
84	†Trans-Canada Air Lines	1	4,600,000 00	
85	The United States and Canada Rail Road Co.....	1	219,400 00	475 00
86	Vermont and Province Line Railroad Company..	1	200,000 00	
87	The Winnipeg Land Company Limited	24	100,000 00	
			$207,327,731 92	$ 4,643,040 00

*The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

†Treated as an Affiliated Company.

RAILWAY EQUIPMENT

	December 31, 1944	Additions During Year	Retirements During Year	Conversions During Year Added	Conversions During Year Retired	December 31, 1945
LOCOMOTIVES:						
Passenger—Freight	1,999	....	24	..	..	1,975
Switching	525	....	2	..	..	523
Electric	24	....	....	..	..	24
Oil Electric	37	....	....	..	..	37
Total	2,585	....	26	..	..	2,559
FREIGHT EQUIPMENT:						
Box Cars	69,166	2,144	303	13	119	70,901
Flat Cars	5,415	....	31	..	11	5,373
Stock Cars	3,054	....	16	..	1	3,037
Coal Cars	15,714	....	53	..	..	15,661
Tank Cars	147	....	....	..	5	142
Refrigerator Cars	3,212	146	41	..	112	3,205
Caboose Cars	1,670	....	22	..	..	1,648
Other Cars in Freight Service	10	....	....	..	..	10
Total	98,388	2,290	466	13	248	99,977
PASSENGER EQUIPMENT:						
Coach Cars	1,202	....	3	..	3	1,196
Combination Cars	272	....	2	..	..	270
Dining Cars	96	....	....	..	..	96
Colonist Cars	190	....	....	..	..	190
Parlour Cars	47	....	....	..	..	47
Cafe Cars	28	....	....	..	..	28
Sleeping Cars	302	....	....	..	..	302
Tourist Cars	46	....	....	..	..	46
Baggage and Express Cars	1,051	....	10	1	..	1,042
Postal Cars	49	....	....	..	..	49
Unit Cars	43	....	3	..	..	40
Other Cars in Passenger Service	67	....	2	..	..	65
Total	3,393	....	20	1	3	3,371
WORK EQUIPMENT:						
Business Cars	61	....	1	..	..	60
Other Cars in Work Service	7,353	32	238	244	7	7,384
Total	7,414	32	239	244	7	7,444
FLOATING EQUIPMENT:						
Car Ferries	9	....	1	..	..	8
Barges	5	....	....	..	..	5
Tugs	4	....	....	..	..	4
Work	3	....	....	..	..	3

Mr. NICHOLSON: On page 24 there is a reference to the Canadian Northern Alberta Railway Company. Have we been breaking even on the operation of that Northern Alberta line, or what is the score on that?

Mr. COOPER: We did not make any money in 1945.

Hon. Mr. CHEVRIER: There is an annual operating deficit, is there not?

Mr. COOPER: In 1945 after the payment of interest the railway had a deficit of $884,000 of which the Canadian National paid 50 per cent and the Canadian Pacific paid the other 50 per cent.

Hon. Mr. CHEVRIER: It is a fact there has been a loss on the operation of that line ever since it has been established except for two or three years?

Mr. COOPER: Yes.

Mr. NICHOLSON: How large did the deficit run before the war? Have you those figures readily available?

Mr. VAUGHAN: The loss in some cases was very substantial, several hundred thousand a year and some years the loss ran over $1,000,000.

Mr. NICHOLSON: It is likely to operate at a loss now?

Mr. VAUGHAN: Likely to for some time until the country has developed further.

The Acting CHAIRMAN: Have you the answer to your question?

Mr. NICHOLSON: No, just a minute.

Mr. COOPER: I am sorry, we will have to get that for you, Mr. Nicholson. The losses are absorbed by the two parent companies, and therefore it does not reflect itself in the accounts of the company to-day.

Mr. NICHOLSON: Could we have the information for the last ten years if it is not too much trouble?

Mr. COOPER: You can have that without any trouble.

Mr. MOORE: Where is the James Bay and Eastern Railway Company?

Mr. VAUGHAN: I just forget which charter that was now.

Mr. PICARD: According to what it says here it is a branch of the Canadian Northern; is it not?

Mr. VAUGHAN: Yes.

Mr. PICARD: I see the amount owned by the public in all these different companies is $4,643,000. That is referred to in the top line of the balance sheet on page 13. I see next to it on page 25, $207,000,000. Is that owned by the public? It is at the bottom of page 25. You have two figures there. The first one is $207,327,000, capital stock issued, and next to it you have owned by the public, $4,643,000. That figure is also in the top line on page 13 in the liabilities on the balance sheet. What is the $207,000,000?

Mr. COOPER: That is the total capital stock issued by all these companies of which $4,600,000 is held by the public. The balance is held by the Canadian National System.

The Acting CHAIRMAN: Page 29.

STATISTICS OF RAIL-LINE OPERATIONS

	1945	1944
TRAIN-MILES:		
Freight Service	43,381,957	45,206,361
Passenger Service	24,600,264	24,216,998
Total	67,982,221	69,423,359
Work Service	1,732,082	1,552,221
Total	69,714,303	70,975,580
LOCOMOTIVE-MILES:		
Freight Service	46,392,068	48,153,317
Passenger Service	24,382,258	24,034,555
Train Switching—Freight	3,659,667	3,636,807
—Passenger	104,120	101,881
Yard Switching—Freight	15,247,844	15,196,852
—Passenger	1,474,192	1,432,847
Total	91,260,149	92,556,259
Work Service	2,402,612	2,123,840
Total	93,662,761	94,680,099

STATISTICS OF RAIL-LINE OPERATIONS—*Conc.*

	1945	1944
CAR-MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,173,624,393	1,202,177,715
Empty Freight Cars	528,469,997	555,756,559
Passenger Coach and Combination Cars	6,956,586	7,703,467
Sleeping, Parlor and Observation Cars	313,716	525,769
Dining Cars	15,796	44,575
Other Cars	6,789,874	7,604,153
Caboose	42,490,621	44,138,113
Total	1,758,660,983	1,817,950,351
CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	386,155	216,373
Empty Freight Cars	162,865	112,685
Passenger Coach and Combination Cars	81,828,393	89,431,191
Sleeping, Parlor and Observation Cars	61,263,172	58,703,137
Dining Cars	11,440,316	11,200,033
Other Cars	69,802,421	65,925,827
Motor Unit Cars		
Caboose		
Total	227,525,343	227,982,223
Car-Miles—Total	1,986,186,326	2,045,932,574
Work Service	3,989,987	3,045,122
Total	1,990,176,313	2,048,977,696
AVERAGE MILEAGE OF ROAD OPERATED	23,498·36	23,496·03
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	79,941,296	80,851,179
Tons carried one mile—Revenue freight	34,599,518,473	36,015,898,732
Freight revenue	$316,533,329	$321,588,728
Revenue per ton	$3·95957	$3·97754
Revenue per ton mile	$0·00915	$0·00893
Miles per revenue ton	432·81	445·46
Ton-miles—Revenue freight per mile of road	1,472,423	1,526,753
Ton-miles—All freight per mile of road	1,589,767	1,641,004
Gross ton-miles of cars, contents and cabooses	77,301,216,775	79,728,903,320
Net ton-miles of freight (Revenue and non-revenue)	37,356,916,946	38,557,084,137
Train-hours in freight road service	2,850,886	2,894,098
PASSENGER TRAFFIC:		
Passengers carried	30,370,680	35,928,212
Passengers carried one mile	3,338,197,658	3,696,546,316
Passenger revenue	$65,199,923	$69,776,256
Revenue per passenger	$2·14680	$1·94210
Miles per revenue passenger	109·92	102·89
Revenue per passenger mile	$0·01953	$0·01888
Passenger-miles per mile of road	142,061	157,326
NET RAILWAY OPERATING INCOME:		
Gross Revenue per mile of road	$18,459 73	$18,775 41
Gross Railway operating charges per mile of road	$15,571 11	$15,893 02
Net railway operating income per mile of road	$2,888 62	$2,882 39

MR. NICHOLSON: Referring to page 27 I wonder if you have any plans for using these oil electric trains more extensively on some of these branch lines. I think that unless something can be done to speed up the passenger service on these branch lines the buses are going to get more of the passenger traffic again. I understand that the oil electrics operate economically.

MR. WALTON: They operate economically, but one difficulty with them is to find a suitable place for them. In many cases we have to move them from one assignment to another from time to time as business fluctuates. We have not bought any of those units for some time nor have we any immediate plans for them. There are comparatively few runs on which they fit the requirements of the run. Even with those that operate regularly we often at week-ends have to substitute steam service which leaves the diesel lying idle. We have not for several years added any of those units to our equipment.

Mr. NICHOLSON: What are your plans to compete against buses? I think unless you can speed up your service the buses are going to cut into the passenger business pretty drastically.

Mr. WALTON: We have planned some speeding up of service in certain localities. That can be done with steam equipment equally as well as with diesel unit equipment. The chief advantage of these diesel units is their lesser cost of operation, but against that is the difficulty of finding a place where the requirements, at least at certain times, do not become too heavy for them.

Mr. MUTCH: How do they operate in the snow?

Mr. WALTON: Oh, they would stall in snow easier than a steam locomotive, but on the whole we have not found that a serious disability.

Mr. GIBSON: The upkeep would be much higher on them?

Mr. WALTON: No, the entire operation on them is not bad. In connection with Mr. Mutch's question I would say that in cases where it is extremely stormy we would turn out a steam unit instead of one of these rather than take a chance of having them stall in the snow. They distinctly have their limitations, and it is some years since we have added anything to our ownership of that style of unit.

Mr. NICHOLSON: Instead of giving mixed service on some of our lines in the west it would appear to me that one of these cheaper units would produce a good deal of revenue and would not be too costly.

Mr. JACKMAN: With a chair car attached.

The ACTING CHAIRMAN: And no smoking. Page 29, gentlemen. That is just statistics. Page 31.

Mr. JACKMAN: There might be something interesting in the statistics, by chance.

Hon. Mr. CHEVRIER: I am sure you will find it, Mr. Jackman, if there is.

Mr. JACKMAN: All right, I will uncover it.

Hon. Mr. CHEVRIER: To use the expression of one of my colleagues I am saying that in a very kindly way.

Mr. JACKMAN: I know you are, Mr. Minister. I see here ton miles, all freight per mile of road, 1,589,767. How does that figure compare with the C.P.R.? Under the next heading, passenger traffic, you have got passenger miles per mile of road, 142,061.

Mr. COOPER: The figure for Canadian Pacific ton miles of revenue freight per mile of road in 1945 is 1,600,283.

Mr. JACKMAN: Have you the passenger figure there, too?

Mr. COOPER: What was the other question?

Mr. JACKMAN: Passenger miles per mile of road.

Mr. COOPER: 168,470.

Mr. HAZEN: Have you any record of the number of passengers carried on passes in 1945?

Mr. WALTON: I do not think we have any figures here.

Mr. JACKMAN: As to that comparison you gave me Mr. Cooper, I was under the impression from some of our previous meetings that to some extent you are a colonizing road and your density of traffic was not nearly as favorable as that of your competitor. These figures would seem to indicate that you have got a pretty good line working through a pretty good territory.

Mr. WALTON: We are lower than the Canadian Pacific.

Mr. COOPER: On the revenue freight as against their 1,600,000 ton miles per mile of road ours was 1,472,000.

Mr. JACKMAN: 4,589,000?

Mr. COOPER: No, 1,472,423. Then their figure of all freight would be 1,725,427 as compared with the C.N.R. of 1,589,767.

Mr. JACKMAN: There is not anything very wrong with your territory judging from that comparison.

Mr. COOPER: Not in 1945.

Mr. REID: If this question has been asked and answered you can just brush it off, but the question I have in mind has to do with page 29. It gives the passenger service train miles as 24,600,264, and then below that it gives the passenger service locomotive miles, 24,382,258. The figures as to train miles and locomotive miles of the freight and passenger services are entirely different. What is the reason for that? I thought that a locomotive would be on every train.

Mr. WALTON: In some cases there is a double header on certain trains, two locomotives. In freight service there is assisting up grades, which gives you different locomotive mileage than train mileage and there is the feature of mixed train operation.

Mr. REID: That would answer it.

The ACTING CHAIRMAN: Page 31.

OPERATED MILEAGE, 31st DECEMBER, 1945

Operated Road Mileage Territory	Owned	Leased	Trackage	Total
Atlantic Region	2,986.74	6.41	82.95	3,076.10
Central Region	7,104.18	353.13	27.85	7,485.16
Western Region	11,083.77	378.22	64.07	11,526.06
Grand Trunk Western Lines	956.26	9.50	59.75	1,025.51
Central Vermont Lines	237.90	125.18	58.73	421.81
Total First Main Track	22,368.85	872.44	293.35	23,534.64
Lines in Canada	20,959.26	565.43	170.48	21,695.17
Lines in United States	1,409.59	307.01	122.87	1,839.47
Operated Mileage All Tracks				
First Main Track	22,368.85	872.44	293.35	23,534.64
Second Main Track	1,214.87	13.70	85.42	1,313.99
Third Main Track	26.65	....	3.49	30.14
Fourth and Other Main Tracks	10.78	....	5.09	15.87
Spurs, Sidings and Yard Tracks	5,793.23	308.19	1,129.81	7,231.23
Total All Tracks	29,414.38	1,194.33	1,517.16	32,125.87

EMPLOYEES AND THEIR COMPENSATION

Year	*Average Number of Employees	*Total Payroll	% Inc. over Previous Year Employees	% Inc. over Previous Year Payroll
1939	78,129	$122,354,101		
1940	82,831	132,594,063	6.02	8.36
1941	89,536	153,654,368	8.09	15.89
1942	94,592	177,042,773	5.65	15.22
1943	101,126	195,555,045	6.91	10.46
1944	102,764	222,649,839	1.62	13.86
1945	105,624	220,507,637	2.78	*.96*

* Includes railways, express and telegraph employees. Excludes hotel and subsidiary company employees.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:— 1945–%	1944–%	Operating expenses were disbursed:— 1945–%	1944–%
Labour	47.19	46.78	57.61	56.93
Fuel	9.77	9.82	11.92	11.95
Other Expenses	24.95	25.58	30.47	31.12
Total Operating Expenses	81.91	82.18	100.00	100.00
Available for Taxes and Other Accounts	18.09	17.82		
Total	100.00	100.00	100.00	100.00
Maintenance of Way Accounts	16.21	17.34	19.79	21.10
Maintenance of Equipment Accounts	17.70	18.19	21.61	22.13
Traffic Accounts	1.39	1.37	1.70	1.67
Transportation Accounts	41.30	40.32	50.42	49.07
Miscellaneous Accounts	1.45	1.34	1.77	1.63
General Accounts	3.86	3.62	4.71	4.40
Total Operating Expenses	81.91	82.18	100.00	100.00

Mr. HAZEN: I asked as to passengers carried on passes. Have you any record of that?

Mr. VAUGHAN: We have, of course, a record of the passes. At least, a record could be obtained from the pass stubs. All our passes are issued in accordance with the rulings of the Board of Transport.

Mr. HAZEN: There are 30,370,680 passengers carried. I was wondering how many were carried on passes.

Mr. VAUGHAN: We could not tell you that.

Mr. NICHOLSON: At previous meetings of the committee we have had some discussion about the allocation of government business. Have satisfactory adjustments been made or are there any directives that result in the Canadian National not getting a fair share of government business?

Mr. VAUGHAN: That is not as important as it was when the war business was moving. So far as I know at the present time we are getting a fair share of the business that is going.

Mr. REID: Is your Company at any disadvantage in regard to the percentage of the passenger traffic obtained from those arriving in this country on the various steamship lines? I have in mind that the C.P.R. have some steamships of their own crossing the Atlantic and they might direct all the passengers over their lines. Are you at any disadvantage, Mr. Vaughan?

Mr. VAUGHAN: No, we have not been. The C.P.R. have been operating no passenger boats on their own account. Practically all the vessels they have been operating during the war have been under the control of some government or another. We have had a fair share of all business that has been coming into Halifax during the war.

Hon. Mr. CHEVRIER: It was pooled under the united maritime agreement.

Mr. NICHOLSON: How about your revenue from carrying mail? I understand that the C.P.R. get a good deal of the carrying of mail between Montreal and Winnipeg and Toronto and Winnipeg.

Mr. VAUGHAN: We are improving our position in respect to mail carryings. There is still room for improvement yet though.

Mr. NICHOLSON: How much mail are you carrying from Montreal to Vancouver, for example?

Mr. VAUGHAN: We do not carry any.

Mr. NICHOLSON: Toronto to Vancouver?

Mr. VAUGHAN: All those mails go by the Canadian Pacific Railway.

Mr. NICHOLSON: Are you striving to improve that position?

Mr. VAUGHAN: Our officers are constantly in touch with the Post Office Department, and that situation is being gradually corrected.

Mr. MUTCH: What is the situation between Halifax and Montreal?

Mr. VAUGHAN: We are the only ones can carry mail there.

Mr. MUTCH: You are the only ones; you get it all?

Mr. VAUGHAN: We are the only ones that reach Halifax. The C.P.R. do not come anywhere near Halifax with a through line. Saint John is the nearest point they come to Halifax.

Mr. MUTCH: I would have been more accurate if I had said the Atlantic coast than Halifax.

Mr. VAUGHAN: They get most of the mail from Saint John, and we get it from Halifax.

Mr. NICHOLSON: How about Winnipeg and Saskatoon and Winnipeg and Edmonton? Do you handle those mails?

Mr. VAUGHAN: We handle a substantial proportion of those mails.

Mr. PICARD: According to these figures here it would appear that it pays the company more to transport passengers than freight. Your revenue per passenger mile is nearly 2 cents and your revenue per ton mile of freight is 0·009. You may not get more money in the whole revenue of the company but per mile it pays you more to haul passengers than freight.

Hon. Mr. CHEVRIER: If you will look at the diagram on page 19 you will see how it is divided. Seventy-three cents of a dollar comes from freight and 15 cents comes from passenger.

Mr. WALTON: I do not think you can compare a ton of freight and a passenger.

Mr. PICARD: No, but yet the revenue per passenger mile here is 0·019 which is the equivalent of about 2 cents per mile per passenger, and a little above that you have got the revenue per ton mile of freight, 0·009. So that it is more profitable. How do you explain that part of the statistics?

Mr. WALTON: I just do not think you can compare one passenger with a ton of freight. You are comparing two different things.

Mr. PICARD: These things must have a meaning. When you give the revenue per ton mile at so much and the revenue per passenger mile at so much then you must have a purpose in having it there. I am trying to find out what the purpose is.

Mr. WALTON: We show these figures so they can be compared with any like figures that may be produced, but we do not do it with the idea of comparing a passenger with a ton of freight.

Mr. PICARD: No, I imagine it might not be a proper comparison, and yet as far as revenue is concerned it is a comparison that can be made. Does it mean that it is more profitable to haul a passenger than a ton of freight?

Mr. WALTON: I do not think that question can be answered, Mr. Picard. They are not set out comparatively. They are just statistics in respect to the two different branches of the service.

Mr. PICARD: That is right, but yet on the other hand if you haul a ton of merchandise for one mile even if it weighs a lot more than a passenger it brings you less, according to these statistics.

Mr. WALTON: If the comparison is worth anything we might state it another way, that we move a freight train with 2,000 tons of freight on it and we move a passenger train with 300 passengers on it. Whether that helps to get us anywhere I do not know, but it is a fact.

Mr. VAUGHAN: It is impossible to compare them because we are moving so much more freight than we are passengers.

Mr. REID: Am I right in assuming this: there was a reduction (that is at the bottom of page 29) in the gross revenue per mile of road, being less in 1945 than it was in 1944, also, operating charges per mile of road were less in 1945 than they were in 1944—that is the third item—am I right in saying that it shows a betterment in the net operating income; 2·888 as compared to 2·88239?

Mr. WALTON: The figures there indicate dollars, that should be $2,888.62.

Mr. REID: But it does show a betterment?

Mr. WALTON: A slight betterment.

Mr. REID: Why does it show a betterment at the foot, when all the way down it shows an operating loss until you get down to the bottom figure there which shows a betterment?

Mr. VAUGHAN: There is a little betterment in operating conditions.

Mr. WALTON: The expenses went down slightly more than the income with the result that the net position is slightly better.

Mr. REID: You were holding your own in 1945?

Mr. WALTON: Yes.

Mr. JACKMAN: Hurray!

Mr. NICHOLSON: In connection with the different regions, have you any way of indicating the operating revenues for the separate regions?

Mr. VAUGHAN: Mr. Cooper might explain how our regional accounts are kept.

Mr. COOPER: We keep an account of our revenues and expenditures on the different regions, Atlantic, central, western.

Mr. NICHOLSON: Have you any indication as to which is the more profitable?

Mr. WALTON: There is no doubt about the fact that our central region is the most profitable.

Mr. VAUGHAN: The central region is much more profitable than any other of our regions. The western comes next, and then the Atlantic, the Atlantic region is not profitable at all.

Mr. MUTCH: That is due to the concentration of traffic and shorter hauls, is it not?

Mr. VAUGHAN: The central region serves quite a large industrial area.

Mr. EMMERSON: Have you got a breakdown of these different regions that could be submitted showing the revenues and expenditures?

Mr. VAUGHAN: We could file that I think.

Mr. EMMERSON: If that is the case, I would like to have a further breakdown, if possible, (going back to page 16,) a comparative statement on locomotive repairs. I would like particularly to have a statement with respect to the Atlantic region on the Moncton shop for 1945—let us say, for 1942 to 1945. Would it be possible to get that?

Mr. WALTON: I think probably we would have to combine the Moncton and Riviere du Loup shops, both are in the Atlantic region.

Mr. EMMERSON: Even at that it would be of some use. I think I raised the question at a former meeting of the committee with regard to the work done in the Moncton locomotive shops. I would like to ask Mr. Walton if there was some 75 locomotives taken from the Atlantic region in 1945 to the Montreal shops for overhaul.

Mr. WALTON: I have not the exact number before me, but a considerable number were moved to other shops for repairs. In that connection, locomotives are not necessarily repaired at the point where they come due for repairs. There is a situation there which is not particularly applicable to the Atlantic region. We have to transfer locomotives from one region to another as business fluctuates and at various times of the year. A considerable number may be sent to the western region, to western Canada in time for the grain movement. Engines must be sent to the Atlantic region in time for the winter export movement, and so on. These engines may come due for repairs on the Atlantic region when they have put in a comparatively small proportion of their mileage on that region and it would not be a workable arrangement to hold the engines at the point where they are taken out of service for repairs at that particular point. These engines are moved all over the road, they are interchangeable, they are not confined to any one region, with the possible exception of a few special design locomotives. Repair work may be done at any one of our repair shops.

Mr. EMMERSON: That is very true, Mr. Walton, but is seems sometimes that the transfers are made out of the Atlantic region and they hesitate on the way down to get an overhaul and come to the region in first class shape; and then, when they are being transferred back, taken from the region, they stop rather conveniently on their way by these points.

Mr. WALTON: No, I would not say that takes place. It might in the odd instance. If you are looking at it from the point of a repair situation, our Moncton shop itself is on a high level of efficiency.

Mr. EMMERSON: It is on a higher level than it has been for many years.

Mr. WALTON: Yes, and it is handling all the repairs that it can handle and they are doing it well. The only way in which the Moncton shops could handle any more repairs on locomotives than they are at the present time, would be to put on a night shift.

Mr. EMMERSON: You think that is the only way in which it could be done?

Mr. WALTON: I think so.

Mr. EMMERSON: If the efficiency of the shop went up would you not get more production?

Mr. WALTON: Yes, but the Moncton shops show a good level of efficiency at the present time.

Mr. EMMERSON: Just within the last two or three months?

Mr. WALTON: No, longer than that. There was a time after the opening of the new shop that they had to get used to the new set-up. The old shop had a poor layout admittedly, but even in a new shop it takes time to get things properly working. That has now been done and we are well satisfied in recent times with the level of efficiency in the Moncton shops.

Mr. EMMERSON: Now, Mr. Walton, how does the unit cost compare, say in 1945 as compared with 1942, 1943 and 1944 and so on?

Mr. WALTON: 1945 was considerably better than those years you mention. Some of the other shops showed an improvement, too. During the war years we were obliged to take any help we could get. You know the story of how many thousand of our employees went into the armed services. And naturally, many of those were younger men, and many had just finished their apprentice-

ship, and were at the peak efficiency, doing the best work. They had to be replaced by men, some of whom we had to take from garages; we just had to take anyone we could get, with the result that a lower rate of efficiency could not be avoided. And that condition did not apply to the shops only, it applied to various other lines of our work. Now, that has been picking up recently and we are satisfied—we are not satisfied, we would like to do better, but it is at a good level at the present time.

Mr. EMMERSON: On the matter of unit costs, that is all based on records, you have a record of how much it costs to remove, repair and replace different parts. Have you any separate audit of costs in the Moncton shops?

Mr. WALTON: Yes, we have what is called—

Mr. EMMERSON: I mean from outside auditors, the same as you used to have five or six years ago.

Mr. WALTON: We have what is called our shop methods department which assesses the value of the various work units.

Mr. EMMERSON: Which checks up and sees that the right costs—

Mr. WALTON: —are applied to the job.

Mr. EMMERSON: And not run over.

Mr. WALTON: That is right, and that applies also at the other shops as well as Moncton.

Mr. EMMERSON: Has that been the set-up at Moncton during the last four or five months, have they been working there?

Mr. WALTON: I presume they have. That is our regular custom. I am sure I would know if that were not being done.

Mr. EMMERSON: They are asked to check up and see the work being done?

Mr. WALTON: Certainly.

Mr. REID: Mr. Chairman, I brought up a question last year which may seem trivial, but it is one which involves a principle. It has to do with the amount of money, however small or great, collected on meals from passengers travelling through the Province of Saskatchewan. That is something which has been going on for quite a number of years. I asked in the committee last year if I could have the amount collected from passengers on meals, the amount of tax collected on meals at stations or in dining cars from passengers passing through the province of Saskatchewan. There must be a record of that somewhere.

Mr. VAUGHAN: I think we explained last year that it would be a very difficult thing to obtain. These passengers are on continuous trips, a good many of the people concerned are moving from one part of the country to the other. It would be a job to figure out.

Mr. REID: Yes, but surely, Mr. Vaughan, you are not trying to tell the committee that you take money from passengers in the form of a tax and do not account for it, that you do not account to the province of Saskatchewan for the amount you collect. There must be some record of it.

Mr. VAUGHAN: We can certainly give you the amount we pay in the form of taxes to the province of Saskatchewan.

Mr. REID: I may say personally that I think it is unconstitutional; however, that has nothing to do with this committee at the moment.

Mr. VAUGHAN: We can give you, if you so desire, a statement of the taxes we pay to the province, and what it is based on.

Mr. GIBSON: I think it was the tax on meals in which he was particularly interested.

Mr. REID: I was curious to know the amount. It is a tax collected on meals, and surely there must be a record of it somewhere.

Mr. VAUGHAN: We will see if we have any records along that line. Do you know if the records are available, Mr. Cooper?

Mr. COOPER: If it was paid to the province there would be a record.

Mr. REID: There must be a record of it. That has been going on in the province of Saskatchewan for a number of years.

Mr. NICHOLSON: You follow the same practice in other provinces too, do you not?

Mr. REID: I intended my question to apply to whatever provinces it may affect. I do not travel in the province of Quebec very often so I do not know what the practice is there, but I do travel through the province of Saskatchewan frequently and I know that it has been going on there for the past ten years anyway.

Mr. MUTCH: I do not think you could get it back.

Mr. VAUGHAN: We will check that up.

Mr. REID: And my second question is this, have you any figures as to the amount of money it costs you to run to Vancouver from your terminal at Port Mann? You have no running rights through to Vancouver at all. I would like to know what it costs you per year.

Mr. VAUGHAN: We will be glad to file here the amount of money we pay to the Great Northern for running rights.

Mr. NICHOLSON: In filing a report of the amount of money collected in Saskatchewan in respect to the educational tax, you might also file the amount which you collected in Quebec. I presume it would not be too much trouble to get them both at the same time. I understand that the tax you collect in Quebec is on the meals served in the dining car.

Mr. VAUGHAN: We will try to get that for you.

Mr. REID: And may we have similar information with respect to any other province where such an arrangement applies, if there are any others, please let us have them also.

The ACTING CHAIRMAN: Page 32.

REVENUE TONNAGE BY COMMODITIES

	Year 1945	Year 1944	Year 1943	Year 1942
AGRICULTURAL PRODUCTS:				
Wheat	8,836,831	8,846,923	6,433,610	5,554,753
Corn	470,431	346,596	461,393	518,329
Oats	1,853,887	1,757,427	1,707,204	683,973
Barley	1,370,197	1,414,851	1,567,989	607,909
Rye	85,227	124,038	106,094	39,312
Flaxseed	116,848	188,933	271,184	172,056
Other Grain (excluding dried peas, beans, soya beans)	......	28,015	60,645	29,421
Other Grain (including dried peas, beans, soya beans)	155,894	......	......	......
Flour	1,177,277	1,066,804	979,580	947,486
Other Mill Products	2,120,249	2,109,663	2,152,140	1,588,507
Hay and Straw	253,578	329,441	208,439	100,350
Cotton	79,755	77,184	67,993	102,563
Apples (fresh)	91,224	107,381	87,692	75,529
Other Fruit (fresh)	432,482	350,468	291,247	272,606
Potatoes	411,572	337,906	324,671	240,802
Other Fresh Vegetables	261,268	251,533	231,413	198,897
Other Agricultural Products (incl. dried peas, beans, soya beans)	......	709,533	615,869	677,357
Other Agricultural Products (excl. dried peas, beans, soya beans)	725,845	......	......	......
Total	18,442,565	18,046,696	15,567,163	11,809,850

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Tons Year	Tons Year	Tons Year	Tons Year
ANIMAL PRODUCTS:				
Horses	46,296	39,772	35,241	25,214
Cattle and Calves	398,994	296,403	264,180	243,692
Sheep	27,136	29,319	21,914	21,172
Hogs	218,802	355,417	285,797	213,589
Poultry (live and dressed)	......	31,890	27,457	23,694
Poultry (live)	2,431	......	......	......
Dressed Meats (fresh or frozen)	......	156,158	126,892	217 6
Dressed Meats or Dressed Poultry (fresh or frozen)	294,449	......	......	......
Dressed Meats (cured, salted, canned)	......	399,829	318,182	252,277
Dressed Meats (cured or salted)	233,454	......	......	......
Other Packing House Products (edible)	42,377	108,356	106,823	46,679
Eggs	91,125	80,868	62,169	57,889
Butter	65,345	73,497	75,887	75,073
Cheese	88,219	77,388	71,949	71,328
Wool	67,404	68,375	78,286	77,083
Hides and Leather	85,696	79,460	68,203	66,244
Other Animal Products (non-edible)	114,463	92,351	79,535	77,766
Total	1,776,191	1,889,083	1,622,515	1,469,345
MINE PRODUCTS:				
Anthracite Coal	2,095,409	2,485,751	2,636,434	2,612,070
Bituminous Coal	9,193,585	9,335,488	9,983,156	9,181,800
Sub-Bituminous and Lignite Coal	1,823,304	1,703,873	1,975,152	1,716,941
Coke	1,472,883	1,232,219	1,228,110	1,010,864
Iron Ores and Concentrates	646,270	137,451	338,355	177,898
Copper Ore and Concentrates	181,605	196,934	225,870	239,528
Other Ores and Concentrates	2,033,078	3,057,685	4,556,495	2,707,385
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	819,398	750,669	836,148	827,158
Sand and Gravel	1,438,943	1,409,881	1,506,195	1,801,655
Stone (crushed, ground, broken)	2,009,009	1,995,647	1,971,865	2,069,652
Slate, Dimension or Block Stone	70,984	81,076	67,622	70,646
Crude Petroleum	606,176	629,573	535,876	356,870
Asphalt (natural, by-product petroleum)	199,882	197,498	128,529	177,268
Salt	567,193	498,454	498,973	476,942
Other Mine Products (not fully processed)	1,042,179	1,234,542	1,290,365	1,204,170
Total	24,199,898	24,946,741	27,779,145	24,630,847
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	677,158	568,608	544,002	491,042
Cordwood and Other Firewood	580,163	759,108	668,884	582,401
Ties	61,290	105,531	56,170	71,450
Pulpwood	4,104,087	3,524,054	3,099,099	2,683,141
Lumber, Timber, Box, Crate and Cooperage Material	4,090,454	4,099,984	4,114,300	4,300,022
Other Forest Products	252,371	310,578	226,255	258,905
Total	9,765,523	9,367,863	8,708,710	8,386,961
Carried Forward	54,184,177	54,250,383	53,677,533	46,297,003

Mr. JACKMAN: When a province has a corporate income tax do you have to pay income tax with respect to your operations in that province?

Mr. VAUGHAN: Frequently there are special arrangements made by the railways with the provinces with respect to taxation.

Mr. JACKMAN: Have you made any representations to the province of Saskatchewan with regard to the proposed corporation tax in that province?

Mr. VAUGHAN: We have made a good many representations to Saskatchewan. Just offhand I do not know in what position these representations are at the moment.

The ACTING CHAIRMAN: Page 33. Page 34. Page 35.

REVENUE TONNAGE BY COMMODITIES—*Continued*

	Year 1945 Tons	Year 1944 Tons	Year 1943 Tons	Year 1942 Tons
Brought Forward	54,184,177	54,250,383	53,677,533	46,297,003
MANUFACTURES AND MISCELLANEOUS:				
Gasoline	1,391,244	2,191,200	1,766,540	1.434.251
Petroleum Oils and Petroleum Products (except asphalt and gasoline)	1,767.601	1,619.419	1,780,340	1,810.555
Sugar	375,950	424,855	335,051	261.127
Iron, Pig and Bloom	288,527	249.784	251.209	247,716
Rails and Fastenings	61,635	106,919	29,046	29.256
Iron and Steel (bar, sheet, structural, pipe)	1,733,839	1,685,688	2.323,745	2,349,704
Castings, Machinery and Boilers	259,747	230.878	294.603	283,261
Cement	488.525	419.206	541.035	732,438
Brick and Artificial Stone	213.776	202,515	240,760	281,353
Lime and Plaster	367.387	400,787	436.248	399.278
Sewer Pipe and Drain Tile	30,085	23,306	29.581	34,352
Agricultural Implements and Vehicles other than autos	228.674	203,875	147,659	136,123
Automobiles, Auto Trucks and Auto Parts	1,701,549	2,171,116	2,287.630	2,161,027
Household Goods and Settlers Effects	20,268	20,225	14.356	12,213
Furniture	49,525	43,806	44,054	52,732
Beverages	473.298	463,502	377,705	390,065
Fertilizers, All Kinds	1,130,242	920.518	809,155	667,740
Newsprint Paper	1,462,742	1,543,708	1,591,989	1,507,344
Other Paper	317,307	286,926	251.086	238.903
Paper Board, Pulpboard and Wallboard (paper)	400.422	340.182	326.152	358.115
Woodpulp	1,295,781	1,297,012	1,445,684	1.342.551
Fish (fresh, frozen, cured, etc.)	164.628	124.218	122,579	103,028
Canned Goods (all canned food products except meats)	......	528,836	466.164	469,156
Canned Goods (all canned food products)	624.518	......	......	......
Other Manufactures and Miscellaneous	8,709,255	8,907,430	8,737,518	8,084,014
Merchandise (all L.C.L. freight)	2.200.594	2,194,885	2.099,359	1,861,932
Total	25,757,119	26,600,796	26,749.248	25.248,234
Grand Total	79,941.296	80.851.179	80.426.781	71.545.237

WORLD-WIDE SERVICE

The Canadian National maintains offices in the British Isles, Australia, New Zealand, France and the United States to render helpful service and to give information in connection with the traffic and other interests of the Company and of Canada generally. The principal offices of this kind are located at the following points:—

United States

Boston	Mass.
Buffalo	N.Y.
Birmingham	Ala.
Cedar Rapids	Iowa
Chicago	Ill.
Cincinnati	Ohio
Cleveland	Ohio
*Detroit	Mich.
Duluth	Minn.
Flint	Mich.
Grand Rapids	Mich.
Kansas City	Mo.
Los Angeles	Cal.
Mason City	Iowa
Memphis	Tenn.
Milwaukee	Wis.
Minneapolis	Minn.
New Haven	Conn.
New Orleans	La.
*New York	N.Y.
Omaha	Neb.
Philadelphia	Pa.
Pittsburgh	Pa.
Portland	Me.
Portland	Ore.
St. Albans	Vt.
St. Louis	Mo.
St. Paul	Minn.
Saginaw	Mich.
San Francisco	Cal.
Seattle	Wash.
South Bend	Ind.
Toledo	Ohio
Tulsa	Okla.
Washington	D.C.

Great Britain

Belfast	Northern Ireland
Cardiff	Wales
Glasgow	Scotland
Liverpool	England
*London	England
Southampton	England

France

Paris	France

Australia and New Zealand

Melbourne	Australia
Sydney	Australia
Wellington	New Zealand

*Industrial Development representatives located at these points.

CANADIAN NATIONAL HOTELS

HALIFAX, N.S.
The Nova Scotian

CHARLOTTETOWN, P.E.I.
The Charlottetown

OTTAWA, ONT.
Chateau Laurier

PORT ARTHUR, ONT.
Prince Arthur Hotel

WINNIPEG, MAN.
The Fort Garry

BRANDON, MAN.
Prince Edward Hotel

SASKATOON, SASK.
The Bessborough

EDMONTON, ALTA.
The Macdonald

VANCOUVER, B.C.
*Hotel Vancouver

*Operated under the joint management of Canadian National Railways and the Canadian Pacific Railway Company.

SUMMER RESORT HOTELS

JASPER PARK LODGE
Jasper, Alta.

MINAKI LODGE
Minaki, Ont.

PICTOU LODGE
Pictou, N.S.

SIX YEARS OF WAR

Some Outstanding Facts of Canadian National Railways Operations 1940-1945 Inclusive

1940	1941	1942	1943	1944	1945
Revenue Tons of Freight Carried—Total 433,195,137					
55,060,232	65,370,412	71,545,237	80,426,781	80,851,179	79,941,296
Number of Revenue Passengers Carried—Total 160,048,545					
11,204,289	17,681,343	30,363,290	34,500,731	35,928,212	30,370,680
Number of Telegrams and Cables Handled—Total 64,675,926					
8,758,272	10,000,957	10,862,351	11,650,492	11,382,207	12,021,647
Number of Express Shipments Handled—Total 85,095,087					
11,933,289	12,712,385	12,932,571	14,672,359	15,780,767	17,063,716
Number of Hotel Guests—Total 4,351,689					
604,028	648,010	638,877	755,514	817,016	888,244
Payroll—Total $1,101,993,725					
$132,584,063	$153,654,368	$177,042,773	$195,555,045	$222,649,839	$220,507,637
Operating Revenues—Total $2,243,095,405					
$247,527,225	$304,376,778	$375,654,543	$440,615,955	$441,147,510	$433,773,394
Operating Expenses—Total $1,771,603,687					
$202,519,813	$237,768,437	$288,998,675	$324,475,670	$362,547,043	$355,294,049
Net Operating Revenues—Total $471,491,718					
$45,007,412	$66,608,341	$86,655,868	$116,140,285	$78,600,467	$78,479,345
Surplus after Payment of Taxes, Interest due Public and the Government and all other Charges—Total $95,537,017					
$16,965,044*	$4,016,327	$25,063,268	$35,639,412	$23,026,924	$24,756,130

* Deficit.

Mr. Picard: I move the adoption of the report.

Mr. Gibson: I second the motion.

The Acting Chairman: Gentlemen, you have heard the motion. Will those in favour please say aye? Those opposed?

I declare the motion carried.

The Acting Chairman: And now, gentlemen, we will proceed to a consideration of the budget. You all have copies of it before you, the Canadian National Railways budget for the year 1946. (Printed as Appendix "B").

Hon. Mr. Chevrier: I think, Mr. Vaughan, the practice followed before was that either yourself or Mr. Cooper read the various points of the budget and questions were asked as we went along. Is there any objection to that procedure?

Mr. Vaughan: All right, sir. Our operating budget for 1946 shows an anticipated surplus of $7,500,000. The details of that are on page 2. The capital budget shows additions and betterments for 1946 of $14,000,000. The comparable figure for 1945 is there. You will see that the comparable figure for 1945 was $15,008,000 and of that we were only able to expend $2,630,000.

Mr. Mutch: Was that due to shortage of material or labour?

Mr. Vaughan: Shortage of material and labour.

Mr. Mutch: Do you consider the situation has improved adequately to bring it back to the amount you figured on in 1945?

Mr. Vaughan: We are hoping that we will be able to get more material this year, and labour is more plentiful. New equipment—we propose to spend $8,863,000. The details of that will be found on page 3. Perhaps I had better go through the first page and we can go on to the details later. For the acquisition of the Manitoba Railway $7,000,000.

Mr. Gibson: Who owns that?

Mr. VAUGHAN: The Northern Pacific Railway, under lease to the Canadian Northern for nine hundred and ninety-nine years.

Mr. GIBSON: Have they guaranteed the bonds?

Mr. VAUGHAN: No, sir, that is a straight lease from the Northern Pacific Railway for nine hundred and ninety-nine years. The amount at which the line can be acquired is set out in the option, and that option can be exercised to-day and a considerable amount of money saved.

Mr. GIBSON: And you think it is a good buy at $7,000,000?

Mr. VAUGHAN: Yes, we do.

Mr. NICHOLSON: Where does this line originate?

Mr. VAUGHAN: It is almost entirely in Manitoba. It runs from the Minnesota boundary through Winnipeg and Portage Laprairie and out through there.

Mr. JACKMAN: I suppose they would have to pay taxes on the rentals you paid them, I mean to the income tax department?

Mr. VAUGHAN: I do not know what they do about that, Mr. Jackman.

Mr. JACKMAN: I am just wondering whether or not from the point of view of the whole of Canada it would not be more economical—it might be more economical from the point of view of the system—but the treasury would be losing a considerable amount of money by reason of the loss of taxes if it goes into your hands. It might not be advantageous to acquire it.

Mr. VAUGHAN: It has been discussed with the Treasury and considered from all viewpoints and with respect to any agreement as to purchasing this land.

Mr. JACKMAN: How much rental do you pay to the Great Northern?

Mr. VAUGHAN: $300,000 per annum.

Mr. GIBSON: That is a good bargain.

Mr. VAUGHAN: Acquisition of securities; there is an item of $410,000. Principal payments, $9,777,000.

Mr. PICARD: With respect to that item, does it mean that it is retired out of your operation costs, or is it retired by government loans?

Mr. COOPER: As against gross requirements of $40,000,000, we have $17,000,000 of our own available and we expect to borrow $22,000,000 from the government.

Mr. PICARD: But you have a total of $9,777,000?

Mr. COOPER: That enters into the total requirements of $40,000,000, against the total requirements we shall have available, $17,500,000; and we expect to borrow the difference.

Mr. VAUGHAN: There is an item there at the bottom: "Pursuant to the Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company has subscribed for all of the shares of the capital stock of Trans-Canada Air Lines. The initial capital stock was $5,000,000, on which to December 31, 1945, calls had been made amounting to $4,600,000. The capital stock was increased to $25,000,000 by the 1945 amendment to the Act. During 1946 the Canadian National Company may be required to meet additional calls on the capital stock amounting to $14,000,000 to enable Trans-Canada Air Lines and its subsidiaries to finance their 1946 capital budgets."

Mr. JACKMAN: Are you expecting a call?

Mr. VAUGHAN: Trans-Canada Air Lines has ordered new equipment as you already know, and a certain amount of it will be delivered this year, but you gentlemen will have an opportunity to question Trans-Canada Air Lines officers upon that when they come before this committee.

Mr. JACKMAN: I understand the bill of divorcement of the airways from the railways has been postponed, has it not?

Mr. VAUGHAN: I do not know how long it has been postponed. On page 2 you will find the details of our operating revenues. We estimate an operating revenue of $381,251,000 against a 1945 actual revenue of $429,565,715.

Payment under Maritime Freight Rates Act: $3,042,000 as against a 1945 actual of $3,519,878.

Payment of deficit in the opertion of Prince Edward Island Car Ferry and Terminals: $707,000 as against 1945 actual $687,800.

The total estimated revenue would be $385,000,000, as compared to $433,773,393 last year.

Mr. REID: Do you expect a drop to that extent, Mr. President?

Mr. VAUGHAN: Yes, sir. We are just running about that right now, at the present time.

Mr. PICARD: I think your budgetary experts are quite good to come within their budget since there is such a small difference.

Mr. VAUGHAN: Operating expenses in 1946 are estimated to be $325,500,000 as against $355,294,048 last year. We hope to get a net operating revenue of $59,500,000 as against an actual operating revenue of $78,479,345 last year. Net income charges excluding interest: $7,174,000 as against $7,395,073 last year. Interest on funded debt due to the public this year will be: $23,377,000 as against $26,021,784 last year. Interest on government loans are expected to be: $21,449,000; making a total of income charges of $52,000,000 and an estimated surplus of $7,500,000 as against an actual surplus of $24,756,130 last year.

Mr. JACKMAN: You budgeted there for the interest on the repatriated securities?

Mr. VAUGHAN: Yes, sir. Then there is a note down there:

> The 1946 budget includes $1,991,800 for contribution to the deficit of the I.C.R. & P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

Mr. EMMERSON: How does that budget compare to previous years? Is that contribution increasing every year?

Mr. VAUGHAN: I think it is increasing rather than decreasing.

Mr. EMMERSON: We will have to come to a time when these old employees are gradually dying off.

Mr. VAUGHAN: They are retiring all the time and their pensions down there are quite high as compared to pensions on any other part of the system.

Mr. MUTCH: When do you expect to reach a peak?

Mr. COOPER: In about ten or twelve years from now.

Mr. GIBSON: Is it not predicated on your wage scales?

Mr. VAUGHAN: It is based upon the pensions paid to the men who have actually retired.

Mr. WALTON: The higher the wages the greater the contributions.

Mr. VAUGHAN: It is very difficult to estimate. The next is page 3, additions and betterments. Atlantic region: 1946 budget, $1,686,067. Last year, actual, $750,440. The 1945 budget was for $1,341,350.

Mr. EMMERSON: Can we have an indication of what that is for?

Mr. VAUGHAN: There is a breakdown on the next page. Central region: $5,914,660 as against an actual expenditure last year of $1,755,917. Western region, the figure is $3,109,860 as against an actual, last year, of $1,249,109. Grand Trunk Western Railroad Company: $1,985,729 as against $840,456 last year. For the Central Vermont Railway: $344,931 as against a credit last year of $204,791. Subsidiary companies: $1,967,705 as against a credit last year of $765,261. Express, telegraphs, and other departments, $1,674,277 as against a credit last year of $220,725. Additions and betterments to equipment, $2,116,956 as against $546,443 last year. Equipment retirements: a credit of $1,800,185 as compared to a credit last year of $1,321,294, and the total would be $17,000,000 as against an actual expenditure last year of $2,630,294 and a budgeted expenditure in 1945 of $15,008,000.

Less—Portion of projects included in the above 1946 requirements which will not be physically completed by December 31, 1946.

Mr. GIBSON: How much did you invest in the Pacific Communication System taken over from War Assets this year? I believe it was quite a substantial amount?

Mr. VAUGHAN: We did not invest very much ourselves in the Communication System, out there, except to the extent that we have bought some of their equipment since. The expenses of that were paid by the government and the work was done jointly by the Canadian National, the Canadian Pacific, and British Columbia Telephone.

Mr. GIBSON: But now you have taken them over into your own name, have you not?

Mr. VAUGHAN: Not any great proportion of them as yet.

Mr. GIBSON: If it is not readily available, it will be all right because it will come up in due course.

Mr. REID: I wonder if you would be good enough to stop off at that New Westminster station and see what the Great Northern are doing, and see if it is conducive to traffic?

Mr. VAUGHAN: I will do so, Mr. Reid.

Mr. GIBSON: I put him off there in December and he looked very unhappy.

Mr. JACKMAN: Do you think the time will ever come when the system will not be asking the government for money for capital account?

Mr. VAUGHAN: I think it is still a long way off. We are bound to have capital expenditures every year if we are to keep this railroad up to date.

Mr. JACKMAN: I mean capital expenditures beyond the amount you have for depreciation on rolling stock. An ordinary company would obtain its capital through depreciation of property, but you do not have a set-up for that. If this were a private company it might not be able to borrow on its own account. It would have to cut the cloth to fit the pattern. It might be quite unable to go ahead expanding in this way. But, having the treasury of the people to draw upon and to approve these budgets, you are able to go ahead with this expansion even though it does not appear, over a term, to add to the earnings of the railway. Surely there will come a time when parliament must consider whether or not it is going to keep on advancing millions and millions of dollars every year for capital expenditures for this railway which do not net any return to the taxpayers?

Mr. COOPER: That item in the budget of $9,777,000 is not an addition to the capital debt of the railway; it is entirely a refunding proposition.

Mr. JACKMAN: But referring to $22,550,000?

Mr. COOPER: Out of the $22,550,000 the $9,777,000 is really a refunding.

Mr. JACKMAN: But if you take the $9,777,000 off you have got about $13,000,000 net capital expansion being put up by the taxpayers, yet we are foreshadowing greatly decreased revenues and we already have a proprietorship account of $9,777,000 on which we get a very small return. This year, I think it was 1 per cent.

Mr. COOPER: The item of $7,000,000 can be considered substantially as a refunding proposition.

Mr. JACKMAN: That takes it down to $5,000,000.

Mr. COOPER: We have $22,550,000 net capital of which $16,777,000 is substantially refunding, making additional capital of $5,773,000.

Mr. JACKMAN: That is right.

Mr. COOPER: And we expect to earn $7,500,000 from operations. So, according to our budget estimates we will not ask for any money from the government, that is there will not be any increase in our capital debt in 1946. If we borrow $10,000,000 for refunding, it is not an addition to the debt.

Mr. VAUGHAN: Every railroad in the United States have such a policy; when they buy new equipment, they issue new securities to cover it.

Mr. JACKMAN: Yes, but they often have receipts from their rolling stock, or they pay it off gradually out of earnings.

Mr. VAUGHAN: So do we; we pay it off serially each year. For example, here is an item out of the Canadian Pacific report; your approval will also be requested for capital appropriations of $42,000,000 in the year 1946. Their capital budget is much higher than ours.

Mr. REID: What about this item I see here about hotels; what position is the new hotel in Vancouver in? How are they getting on financially?

Mr. VAUGHAN: We have been doing reasonably well there. A rental is being paid to the Canadian National for the use of the hotel and the operating company is making a little money and dividends have been paid for the last two years to each railway on the operation of the hotel.

Mr. PICARD: If we listened to your suggestion yesterday, or if the Canadian National were treated in the same way as American railways have been by being able to reduce their capital you would have been in a better position with respect to your surplus in 1946; you would not have to consider interest on government loans, and so on, if you were in the same position as the American railroads are after re-organization?

Mr. VAUGHAN: That is correct.

Mr. PICARD: To what extent do you figure you would be in a better position?

Mr. VAUGHAN: It would be hard to figure such an estimate, Mr. Picard, but our whole position would be very much better if we had our fixed charges adjusted to a normal basis.

Mr. PICARD: The same as has been done in the American companies?

Mr. JACKMAN: They get a credit for the payment of surplus each year for debt which they owe, the same as the American railroads get a reduction in the bonds which they owe.

Mr. PICARD: In Canada we have assimilated all the loans when the organization of the Canadian National took place which might have been passed on to the public as was done in the United States.

Mr. JACKMAN: When they re-organized.

Mr. VAUGHAN: When they re-organized so much capital and bonded indebtedness was written off.

Mr. PICARD: But we have assimilated the whole of the charges and we still have them on our shoulders.

Mr. JACKMAN: In connection with the $42,000,000 of the Canadian Pacific Railway Company for capital expansion over the coming year, is that money to come from increasing bonded indebtedness?

Mr. VAUGHAN: We have no way of knowing how they will finance that; I would not like to speak for the Canadian Pacific. But if they buy considerable new equipment I would be surprised if they did not make a public issue to pay for it.

Mr. JACKMAN: For new rolling stock?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: It would probably come out of surplus earnings. In connection with railroading on this continent, is it not a fact that they would all require —with perhaps an exception here and there—an increase in their bonded indebtedness or proprietorship account, probably for decades ahead as far as we can see? Are they all still capital consuming industries? None of them has reached its peak yet. They all require money each year to improve their service beyond any amount coming out of their own till, out of their own operating charges. Do they have to go to the public every year, all the American railroads, to carry on expansion programs, or do some of them not have expansion programs?

Mr. VAUGHAN: I think that nearly all the railways, if they buy new equipment, issue securities to cover the equipment.

Mr. JACKMAN: I realize that it is a very cheap way to finance railroads, but even so some of them are not increasing or doubling the amount of railway stock outstanding.

Mr. VAUGHAN: That may be so, but funds for expansion, in one way or another, may be built up from reserve, built up in the last few years.

Mr. WALTON: They are appealing for increased freight rates in the U.S. at the present time for that purpose.

Mr. JACKMAN: Wouldn't that be a better way than for us to keep asking the public for more money?

Mr. REID: If you increase the freight rates, be sure to increase them for the central provinces.

Mr. VAUGHAN: Our position has been improving right along.

The ACTING CHAIRMAN: Is is the wish of the committee to adjourn now until 11 o'clock tomorrow?

Mr. PICARD: I was about to say: that since we have gone into the details of most of this in this year's balance sheet and operations and expenditures, and since this is along the same line, could we move the approval of the budget today and so get rid of it? There are only questions of detail?

Hon. Mr. CHEVRIER: We have gone over the greater part of it with respect to last year.

Mr. PICARD: We have questioned the officers about most of these things.

Hon. Mr. CHEVRIER: Mr. Reid has one question he would like to ask.

Mr. VAUGHAN: We might deal with that budget when we deal with the West Indies Steamships budget.

Mr. NICHOLSON: If we are meeting tomorrow I think we might adjourn now and continue with this. Some of us have not had a chance to look through this yet. I think we will finish tomorrow anyway.

The committee adjourned at 6.05 p.m. to meet again on Thursday, May 16, 1946, at 11 o'clock a.m.

APPENDIX "B"

CANADIAN NATIONAL RAILWAYS

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

BUDGET - 1946

SUMMARY OF FINANCIAL REQUIREMENTS—YEAR 1946

—	1945 Budget	1945 Actual	1946 Budget	Details on Page
	$	$	$	
OPERATING BUDGET—				
Surplus	25,000,000	24,756,130	7,500,000	2
CAPITAL BUDGET—				
Additions and Betterments	15,008,000	2,630,294	14,000,000	3
New Equipment	24,606,000	10,078,911	8,863,000	4
Acquisition of Manitoba Railway	....	....	7,000,000	5
Acquisition of Securities	1,015,000	829,020	410,000	6
Retirement of Maturing Capital Obligations, including Sinking Fund and Equipment Trust Principal Payments	10,777,000	10,771,225	9,777,000	7
	51,406,000	24,309,450	40,050,000	
Less amounts available from Reserves for Depreciation and Debt Discount Amortization	18,000,000	16,775,951	17,500,000	
Total Capital Budget	33,406,000	7,533,499	22,550,000	

STATUTORY AUTHORIZATION—

Pursuant to The Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company has subscribed for all of the shares of the capital stock of Trans-Canada Air Lines. The initial capital stock was $5,000,000, on which to December 31st, 1945, calls had been made amounting to $4,600,000. The capital stock was increased to $25,000,000 by the 1945 amendment to the Act. During 1946 the Canadian National Company may be required to meet additional calls on the capital stock amounting to $14,000,000 to enable Trans-Canada Air Lines and its subsidiaries to finance their 1946 capital budgets.

OPERATING BUDGET

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Operating Revenues—			
(a) Operating Revenues, excluding *(b)* and *(c)*	428,657,000	429,565,715	381,251,000
(b) Payment under Maritime Freight Rates Act (20%)	3,630,000	3,519,878	3,042,000
(c) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	713,000	687,800	707,000
	433,000,000	433,773,393	385,000,000
Operating Expenses	354,800,000	355,294,048	325,500,000
Net Operating Revenues	78,200,000	78,479,345	59,500,000
Net Income Charges, excluding interest	6,909,000	7,395,073	7,174,000
Interest on Funded Debt—Public	26,035,000	26,021,784	23,377,000
Interest on Government Loans	20,256,000	20,306,358	21,449,000
Total Income charges	53,200,000	53,723,215	52,000,000
Surplus	25,000,000	24,756,130	7,500,000

NOTE.—The 1946 Budget includes $1,991,800 for contribution to the deficit of the I.C.R. and P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

ADDITIONS AND BETTERMENTS

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Additions and Betterments—			
Atlantic Region	1,341,350	750,440	1,686,067
Central Region	6,109,624	1,755,917	5,914,660
Western Region	2,963,779	1,249,109	3,109,860
Grand Trunk Western Railroad Company	1,529,246	840,456	1,985,729
Central Vermont Railway	203,045	Cr. 204,791	344,931
Subsidiary Companies	281,097	Cr. 765,261	1,967,705
Express, Telegraphs, and other departments	2,089,009	Cr. 220,725	1,674,277
Additions and Betterments to Equipment	2,519,845	546,443	2,116,956
Equipment Retirements	Cr.2,028,995	Cr.1,321,294	Cr.1,800,185
	15,008,000	2,630,294	17,000,000
Less.—Portion of projects included in the above 1946 requirements which will not be physically completed by December 31, 1946	....	....	3,000,000
Total	15,008,000	2,630,294	14,000,000

(see attachment Page 3-A)

ALL-INCLUSIVE SYSTEM

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1946

EXPENDITURES LESS RETIREMENTS APPLICABLE TO CAPITAL ACCOUNT

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Subsidiaries Departments and Equipment	Total
	$	$	$	$	$	$	$
ROAD—							
New Lines		175,000	19,313				194,313
Rails and Fastenings	80,330	266,044	243,351	204,150	7,361		801,236
Tie Plates and Rail Anchors	195,777	575,745	514,858	106,250	13,910		1,406,540
Ballast	291,710	360,228		306,670	53,586		1,012,194
Widening Cuts and Fills	255,624				4,000		259,624
Ditching, Drainage and Sewers	20,479	6,885	63,540	5,420			96,324
Large Freight Terminals		85,000	Cr. 102,600				Cr. 17,600
Large Passenger Terminals		60,000	266,725				326,725
Yards, Tracks and Sidings	73,886	356,530	113,359	290,000	6,969		840,744
Roadway Machines	14,460	186,440	146,575	41,960	5,800		395,235
Bridges, Trestles and Culverts	156,088	403,408	556,508	22,600	79,975		1,218,579
Tunnels			65,000				65,000
Highway and Crossing Protection	10,815	39,498	2,400	70,900			123,613
Stations and Station Facilities	110,150	547,965	448,533	101,050			1,207,698
Water Supplies	6,461	50,503	139,001	39,120	3,500		238,585
Fuel Stations	6,700	83,621	127,680	5,000			223,001
Shops, Enginehouses and Machinery	261,286	1,907,746	727,841	122,118	33,101		3,052,092
Docks and Wharves			Cr. 14,850	60,000			45,150
Signals and Interlockers	24,510	175,378	40,127	52,950			292,965
Telegraphs—Railway						586,643	586,643
Telegraphs—Commercial						1,065,301	1,065,301
Land	4,000	13,500	3,630	3,500			24,630
General Additions and Betterments and Contingencies	173,791	618,279	Cr. 252,481	94,160	51,014	Cr. 236,028	448,735
Total	1,686,067	5,911,770	3,108,510	1,525,848	259,216	1,415,916	13,907,327
EQUIPMENT—							
Additions and Betterments to Equipment				448,401	84,015	2,116,956	2,649,372
Equipment Retirements						Cr. 1,800,185	Cr. 1,800,185
Express and Miscellaneous Equipment		2,890	1,350	11,480	1,700	186,376	203,796
Total		2,890	1,350	459,881	85,715	503,147	1,052,983

ALL-INCLUSIVE SYSTEM—*Con.*

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1946

EXPENDITURES LESS RETIREMENTS APPLICABLE TO CAPITAL ACCOUNT

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Subsidiaries Departments and Equipment	Total
	$	$	$	$	$	$	$
Hotels						71,985	71,985
Subsidiary Companies						1,967,705	1,967,705
Total Estimated Additions and Betterments	1,686,067	5,914,660	3,109,860	1,985,729	344,931	3,958,753	17,000,000
LESS.—Portion of projects included in the above requirements which will not be physically completed by December 31, 1946							3,000,000
Net Estimated Additions and Betterments							14,000,000

CANADIAN NATIONAL RAILWAY SYSTEM

New Equipment Purchases

Canadian National Railway System

650 Box Cars to be delivered between January 1, 1946 and March 31, 1946, at a cost of $2,872,000 (part lot of 2,500 cars from 1945 program). To be financed through the 1945 Hire Purchase Agreement. No budget funds required.

Equipment for which financial provision is required in 1946:—

30 Coaches. Authorized in 1944 Budget. Delivery expected in 1946.
10 Baggage Cars. Authorized in 1944 Budget. Delivery expected in 1946.
200 Refrigerator Cars. Authorized in 1945 Budget. Delivery expected in 1946.
400 Box Cars. G.T.W. Authorized in 1945 Budget. Delivery expected in 1946.
10 Mail and Express Cars. Delivery expected in 1946.
10 Diesel Switchers. Delivery expected in 1946.
6 Diesel Switchers—G.T.W. Delivery expected in 1946.

Total Cost including Sales Tax and Inspection Charges.....	$ 8,863,000

Equipment for which orders will be placed in 1946 but for which financial provision is not required in 1946:—

20 Sleepers. Delivery expected in 1947.
100 Refrigerator Cars. Order to be placed in 1946 but delivery expected in 1947.

Total Cost including Sales Tax and Inspection Charges.....	$ 3,715,000

CANADIAN NATIONAL RAILWAYS

Acquisition of the Lines of The Manitoba Railway Company

The Manitoba Railway Company is an amalgamation of:—

Northern Pacific & Manitoba Railway
Winnipeg Transfer Company
Portage & North Western Railway
Washada & North Eastern Railway (No mileage constructed).

Mileage of the lines is as under:—

First Main Track..	348·81
Second Main Track..	4·29
Spurs, sidings and yard tracks..............................	137·66

These lines comprise important connecting links for our train operations through Winnipeg Terminal and to Portage la Prairie and Brandon as well as the line over which Northern Pacific and Great Northern trains operate into Winnipeg. Capital expenditures by C.N.R. for improvements during the term of the lease to December 31, 1945, amounted to $966.001.55.

On January 15, 1901, these lines were leased to the Province of Manitoba for 999 years. On February 11, 1901, the lease, together with option to purchase, was assigned to the Canadian Northern Railway Company. The rental was:—

First 10 years..	$210,000	per	annum
Second 10 years..	225,000	"	"
Third 10 years..	275,000	"	"
Remaining period	300,000	"	"

The present estimated annual saving resulting from the purchase of the lines is:—

Present annual rental..	$ 300,000 00
Purchase price of $7,000,000 at interest rate of, say, 3%.......	210,000 00
Annual saving	$ 90,000 00

The option to purchase is for $7,000,000 at any time during the lease.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities

	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Toronto Terminals Railway—			
Joint with Canadian Pacific Railway Co.			
General Additions and Betterments—			
C.N.R. proportion 50%	100,000	100,000	....
Northern Alberta Railways—			
Joint with Canadian Pacific Railway Co.			
General Additions and Betterments—			
C.N.R. proportion 50%	600,000	400,000	250,000
Chicago and Western Indiana Railroad			
Advances under agreement of March 1/36	150,000	155,244	160,000
Atlantic and St. Lawrence Railroad			
Purchase of Capital Stock	10,000	17,424	....
Northern Railway of Canada			
6% Third Preferential Bonds	....	487	....
Stanstead, Shefford and Chambly Railroad Company			
Purchase of 4% Debenture Bonds	155,000	155,865	....
	1,015,000	829,020	410,000

RETIREMENT OF MATURING CAPITAL OBLIGATIONS, INCLUDING SINKING FUND AND EQUIPMENT TRUST PRINCIPAL PAYMENTS

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Retirement of Maturing Capital Obligations—			
Indebtedness to State of Michigan *re* Wider Woodward Avenue, Detroit	430,000	430,668	430,000
5½% Province of New Brunswick Debentures	818,000	818,000	....
	1,248,000	1,248,668	430,000
Sinking Fund Payments—			
2% Canadian National Rlys. Guar. Deb. Stock (1927)	....	Cr. 5,840	....
4% St. John and Quebec Rly. 1st Mtge. Deb. Stock	6,227	6,227	6,227
	6,227	387	6,227
Equipment Principal Payments—			
4½% Can. National Rly. Equip. Trust Series "L"	1,050,000	1,050,000	....
2½% Can. National Rly. Equip. Trust Series "O"	1,430,000	1,430,000	1,430,000
2½% Can. National Rly. Equip. Trust Series "P"	500,000	500,000	500,000
2½% Can. National Rly. Equip. Trust Series "Q"	650,000	650,000	650,000
3% Purchase of Rly. Equip. 1936 (Dom. Gov't) Repayable 1938–1950	517,173	517,173	517,173
3½% Purchase of Rly. Equip. 1940 (Dom. Gov't) Repayable 1941–1955	991,968	991,968	991,968
3½% Purchase of Rly. Equip. 1941 (Dom. Gov't) Repayable 1943-1957	1,382,634	1,382,634	1,382,634
2⅝% Purchase of Rly. Equip. 1943 (Dom. Gov't) Repayable 1945-1959	1,561,667	1,561,667	1,561,667
2⅝% Purchase of Rly. Equip. 1944 (Dom. Gov't) Repayable 1945-1959	868,728	868,728	868,728
2⅜% Purchase of Rly. Equip. 1945 (Dom. Gov't) Repayable 1946-1960	....	....	868,411
2½% Grand Trunk Western RR. Equip. Trust 1941	570,000	570,000	570,000
	9,522,170	9,522,170	9,340,581
	10,777,000	10,771,225	9,777,000

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
OPERATING BUDGET—			
Operating Revenues	4,503,272	4,412,251	3,677,000
Operating Expenses	2,850,584	2,849,091	2,790,000
Net Operating Income	1,652,688	1,563,160	887,000
Interest Income, etc	....	216,842	175,000
Interest Requirements on 5%—25-Year Bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
U.S. Exchange premium on bond interest	51,700	50,917	49,500
Interest on Government Notes and Advances	145,988	142,999	126,500
Surplus	985,000	1,116,686	416,000
CAPITAL BUDGET—			
Purchase of 3 diesel-driven cargo vessels	....	....	3,750,000
Purchase of vessel from Park Steamship Company	....	....	450,000
	....	....	4,200,000

NOTE.—Funds for the purchase of these four vessels will be taken from the Vessel Replacement Fund.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MAY 16, 1946

WITNESSES

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;

Mr. T. H. Cooper, Vice-President and Comptroller C.N.R.;

Mr. O. A. Matthews, Representing George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

THURSDAY, 16th May, 1946.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, met this day at 11.00 o'clock a.m., Mr. McCulloch (*Pictou*) in the chair.

Members present: Messrs. Chevrier, Bourget, Emmerson, Gibson, (*Comox-Alberni*), Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot, Reid—15.

In attendance: (Representing Canadian National Railways): Mr. R. C. Vaughan, Chairman and President; Mr. N. B. Walton, C.B.E.; Mr. T. H. Cooper; Mr. N. J. Macmillan, General Counsel; Mr. W. S. Thompson, Director of Public Relations and Mr. S. H. May, General Auditor; (Representing G. A. Touche & Company, Auditors for National Railways): Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, Deputy Minister and Mr. F. M. Maclennan, Assistant Deputy Minister and Comptroller.

Mr. Vaughan filed replies to questions previously asked by Messrs. Reid, Nicholson, Jackman; also a statement showing C.N.R. revenues and expenditures by Regions for 1945.

Mr. Pouliot asked to put on record a tribute to the excellent work done during the period of the war by the following C.N.R. officials: Mr. J. P. Johnson, Moncton, Vice-President and General Manager, Atlantic Region and Mr. Frank Griffin, General Superintendent, Quebec City.

Consideration was resumed of the 1946 Budget for Canadian National Railways.

On motion of Mr. Reid, it was

Resolved,—That the Committee adopt the Canadian Natoinal Railways Budget for 1946. Carried on division.

Mr. Vaughan gave a short history of Canadian National (West Indies) Steamship Line and was questioned thereon.

Mr. Vaughan read the Annual Report for the calendar year 1945 of Canadian National (West Indies) Steamships Limited and answered questions in connection therewith.

Mr. Pouliot pointed out that the total (actual) cost to the Government of the operations of the SS. Line as compared with a (potential) cost, if certain subsidies had been paid, was very small (less than $2 million) considering the gain which accrued to Canada as a result of the development of our trade with the West Indies.

After considerable discussion, Mr. Nicholson moved: That this Committee recommends that the management of Canadian National (West Indies) Steamships Limited make representations to the Dominion Government to absorb the $5,059,960 of Dominion of Canada advances appearing in the liabilities side of the Line's Consolidated Balance Sheet for the year ending December 31, 1945.

The Committee adjourned at 1.00 o'clock p.m., to meet again this day at 4.00 o'clock p.m.

AFTERNOON SITTING

The Committee resumed at 4.00 p.m.

Members present: Messrs. Chevrier, Bourget, Emmerson, Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, LaCroix, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid—13.

In attendance: The same officials as are named above.

Discussion on motion of Mr. Nicholson.

Mr. Hazen moved an amendment thereto: "That all the words after 'that' be left out and the following substituted therefor: The Committee adopt the consolidated balance sheet of Canadian National (West Indies) Steamships Limited as shown in the Annual Report for 1945."

After discussion, the question was put on the amendment, and was carried.

On motion of Mr. Reid, it was

Resolved,—That the 1945 Report of Canadian National (West Indies) Steamships Limited and their 1946 Budget be adopted by this Committee.

Mr. Cooper, Comptroller, The Canadian National Railways Securities Trust, read the report of the transactions of the Trust for the calendar year, 1945, and was questioned thereon.

On motion of Mr. Reid, the said Report was adopted.

Mr. O. A. Matthews, of George A. Touche & Company, was called.
He read the 1945 Report to Parliament of the Auditors for National Railways and Canadian National Railways Securities Trust and was questioned thereon.

On motion of Mr. LaCroix the said Report was adopted.

On motion of Mr. Reid, the 1945 Report of the Auditors of Canadian National (West Indies) Steamships Limited was taken as read, considered and adopted.

The following items of the Estimates for the year ending 31st March, 1947, were considered:

Vote No. 422, Maritime Freight Rates Act—Canadian National Railways;

On motion of Mr. Reid, the said item was adopted.

Vote No. 423, Maritime Freight Rates Act,—Railways other than Canadian National Railways;

On motion of Mr. LaCroix, this item was adopted.

Vote No. 469, Prince Edward Island Car Ferry and Terminals—Deficit, 1946;

On motion of Mr. LaCroix, this item was adopted.

It was agreed that the Acting Chairman should report to the House accordingly.

The Minister of Transport (Hon. L. Chevrier) filed with the Committee a Report for 1945 of the operations of Hudson Bay Railway, which is printed as Appendix "C".

The Minister of Transport informed the Committee that he had received a note from the Minister of Reconstruction and Supply (Hon. C. D. Howe) with reference to Trans-Canada Air Lines and asked if it would be agreeable to the Committee to sit on May 28 to consider all matters relating to T.C.A.

The Committee adjourned at 6.00 p.m. to meet again on Tuesday, May 28, 1946, at 11.00 o'clock a.m.

T. L. McEVOY,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, 17th May, 1946.

The Sessional Committee on Railways and Shipping owned, controlled and operated by the Government, begs leave to present the following as a

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1947, referred to your Committee on 15th April, 1946, and recommends the adoption of the said items, namely:—

Vote 422, Maritime Freight Rates Act— Canadian National Railways	$3,042,000.00
Vote 423, Maritime Freight Rates Act— Railways other than Canadian National Railways ..	900,000.00
Vote 469, Prince Edward Island Car Ferry and Terminals— Deficit 1946	707,000.00

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 16, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'clock a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The ACTING CHAIRMAN: Gentlemen, we will come to order. Mr. Vaughan has answers to some of the questions which were asked yesterday.

Mr. VAUGHAN: The first is a question asked by Mr. Reid:

Q. What was the total amount paid to the Great Northern Railway in 1945 for running rights over the line from Vancouver to New Westminster?

A. The amount was $169,533.

The next question asked by Mr. Reid, and coupled with that is some information about Quebec, asked by Mr. Nicholson:

Q. What were the amounts collected for provincial meal taxes on Canadian National Railways dining cars for the year 1945?

A. Amount collected and paid to the: Province of Saskatchewan, $2,722.60; Province of Quebec, $13,611.19.

The next question by Mr. Nicholson:

Q. What were the financial results of operation of the Northern Alberta Railways for the last ten years?

A. The profit or loss (shared equally by C.N.R. and C.P.R.) was as under:—

Year	Profit	Loss
1936		$1,257,472
1937		912,233
1938		1,242,143
1939		1,276,262
1940		924,423
1941		808,899
1942	$1,374,900	
1943	2,506,453	
1944		466,565
1945		884,227

Then, Mr. Jackman asked:

Q. What was the total amount of Dominion of Canada loans outstanding at December 31, 1922?

A. Principal of loans, $506,945,969; Unpaid interest on loans, $69,328,803. Total, $576,274,772.

Then we were asked to supply a statement showing revenues and expenditures by regions for 1945. That statement is as follows:—

NET OPERATING REVENUE BY REGIONS, ETC.
YEAR 1945

Canadian Lines	Revenues	Expenses	Net
Atlantic Region..	$ 50,816,824	$ 51,290,719	$ 473,895 *
Central Region..	189,365,327	130,619,230	58,746,097
Western Region	125,660,155	85,188,906	40,471,249
Common Expenses, such as depreciation, general administration and provision of reserves		29,495,815	29,495,815 *
Express, excluding railway proportion of revenue included above..	10,517,184	10,279,879	237,305
Commercial Telegraph Department..	7,540,500	6,807,970	732,530
Total	$383,899,990	$313,682,519	$ 70,217,471
U.S. Lines..	49,873,404	41,611,530	8,261,874
System.	$433,773,394	$355,294,049	$ 78,479,345

* Figures in red.

This I believe completes all the questions asked, with the exception of some information which Mr. Nicholson wanted relating to land sales. We haven't got that with us but we will file it later, while we are here.

The ACTING CHAIRMAN: Are there any questions?

Mr. POULIOT: Up until now we have been talking in millions of dollars. I have a simple request to make which will not even run into two dollars. I wonder, Mr. Vaughan, if it would be possibl to make copies of the telephone directory of Canadian National Railways at Montreal available for each member of this committee. It would be of great assistance to us in getting in touch with officials when we are in Montreal.

Mr. VAUGHAN: You mean our internal directory?

Mr. POULIOT: Yes.

Mr. VAUGHAN: We will be glad to do that.

Mr. POULIOT: Would you please instruct one of your men to telephone to Montreal and have those sent to us?

Mr. VAUGHAN: We will do that.

Mr. POULIOT: Thank you very much, sir.

Mr. EMMERSON: There was a return I asked for yesterday. Will that be brought down later? It relates to a breakdown of repairs on locomotives on the various regions, more particularly with respect to the Moncton shop. Either Mr. Walton or Mr. Vaughan said that could be given for Moncton and Rivière-du-Loup.

Mr. WALTON: I thought I had pretty well answered your questions in regard to locomotive repairs, Mr. Emmerson. Is anything further wanted?

Mr. EMMERSON: You made a statement on it.

Mr. WALTON: Yes.

Mr. EMMERSON: What I asked was in connection with pages 16 and 17, the cost for 1944 and 1945 for locomotive repairs on the system, and I wanted it by regions.

Mr. WALTON: We can get that for you, Mr. Emmerson.

Mr. POULIOT: When repairs are made to locomotives, do you add to the cost of repairs the cost of transporting the locomotives? Supposing, for instance, a locomotive is found to have something wrong when running between Rivière-

du-Loup and Levis, instead of being repaired at Rivière-du-Loup it is taken to Montreal; let us suppose it is taken to Montreal, would you add the cost of transportation from the point of breakdown to Moncton or Montreal?

Mr. WALTON: No.

Mr. POULIOT: I have in mind an actual case.

Mr. WALTON: Whenever it is possible the engine is worked in service to the repair point. If it is completely broken down and has to be hauled to the repair point, that is just a cost incidental to transportation, it is not segregated and charged to any particular shop or point.

Mr. POULIOT: No, no; but it means the repair is costlier. It does not appear in the account as part of the cost of the repair?

Mr. WALTON: No, not the cost of hauling the locomotive.

Mr. POULIOT: But the repair costs more because of transportation; is that not true?

Mr. WALTON: There would be a certain cost due to hauling it, but usually if it is hauled to a point further away, that is done in order to spread work and because there would have been undue delay had the locomotive been held for repair at the closest point.

Mr. POULIOT: And, by the way, is the Canadian National Railways satisfied with the kind of repair work that is being done on locomotives at Rivière-du-Loup?

Mr. WALTON: Yes, excellent work is being turned out at that shop.

Mr. POULIOT: And would it be possible to have two shifts of men working there on the repair of locomotives?

Mr. WALTON: We have not gone generally into two shift work, feeling that we can overtake the backlog of repairs to locomotives in a reasonable period of time. That matter is one which is subject to re-survey periodically. If we can overtake such backlog as there is with our present staff, we think it is preferable rather than to have a sharp increase in the number of men and then a layoff in possibly a short time again.

Mr. POULIOT: Of course, service work is most important.

Mr. WALTON: Yes.

The ACTING CHAIRMAN: Would you go on, Mr. Vaughan?

Mr. VAUGHAN: If Mr. Pouliot has finished. We had, I think, just finished page 3 of the budget and we are ready now to go on with page 3 (*a*), which is a breakdown by regions.

Mr. JACKMAN: Mr. Chairman, in regard to the appropriation of $7,000,000 for the acquisition of the Manitoba Railroad, the president said that this matter has been taken up with the Department of Finance in order to get their general approval I suppose to the budget, but before voting on that particular item I should like to have the specific information that finance and revenue were definitely of the opinion that from the standpoint of Canada as a whole it was advantageous to purchase this Manitoba Railroad from the Great Northern. The matter of taxation is one which complicates it, and which makes it different from an ordinary business deal. May I ask in the meantime who pays for the upkeep of the railroad for which the National pays $300,000 a year rent?

Mr. VAUGHAN: We do.

Mr. JACKMAN: You maintain it intact?

Mr. VAUGHAN: Yes sir.

Mr. JACKMAN: So the $300,000 is net to the Great Northern, is it?

Mr. VAUGHAN: That is merely the rent which we pay them. We have to pay all the operating expenses on the line.

Mr. JACKMAN: For how long is the lease?

Mr. VAUGHAN: 999 years.

Mr. JACKMAN: So it has an indefinite period to go yet?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: Why is it that it now becames profitable or advantageous for the Canadian National system to acquire that property, whereas it was not advantageous before?

Mr. VAUGHAN: Well, Mr. Jackman, the reason for it is that we are considering every possible means whereby we could reduce our expenses, and even if we borrow the money at three per cent today, and we expect to borrow it at less than that, the cost would only be $210,000 per annum, as against the $300,000, thereby making a saving of $90,000 per annum.

Mr. JACKMAN: Yes, but as a friend of mine in one company says when a good idea is brought forward, why didn't you think of that long ago?

Mr. VAUGHAN: We would all be a lot better off if we could put into effect some of the ideas we got many years ago.

Mr. JACKMAN: This must have been staring you in the face for some years. At the same time, this $300,000 which is paid the Great Northern must be subject to income tax, corporation income tax, at least to the extent of the minimum rate of forty per cent, which would mean tax to the amount of $120,000 to the treasury, which would reduce the net income of Canada (looking at the C.N.R. and the government as one), whereas if you put through this deal on a three per cent basis it costs the country $210,000 maintenance as against the $120,000 revenue. That is exactly the situation. So, Mr. Chairman, before I vote for that I would like to have it clear in my mind that this matter was concurred in by either finance or revenue.

Hon. Mr. CHEVRIER: I can say this about it, Mr. Jackman, that a bill is now in the course of preparation for the acquisition of the railway, subject of course to the approval of parliament. It has been discussed with the Department of Finance and they are perfectly satisfied that this is a good thing to do, in so far as the affairs of Canadian National Railways are concerned. I cannot go beyond that.

Mr. JACKMAN: I do not doubt that. That is what has been happening all across this country because of the higher rate of taxation, and it has an effect on crown companies and particularly provincial governments who do not pay taxes which private business does. Private business has been forced out of many lines of activity. As an illustration let us consider elevators and creameries in the west. They simply have had to sell out to cooperatives, which are also subject to special tax exemption, for the simple reason that private business cannot compete and pay the minimum of forty per cent tax against an owning body which pays no tax whatever. Of course, if the government collects its minimum of forty per cent tax on $300,000, which is $120,000, that brings the net cost to the government down to $180,000 against a projected cost, if the deal went through, of $210,000; so we are much better off as long as the forty per cent tax rate on corporations is continued. Did I understand the minister to say that a bill is coming before the House, to take this line over?

Hon. Mr. CHEVRIER: Yes. There will be full opportunity to discuss it at that time. I have seen the bill and it has been approved by the legal officers of my department, and I presume it will be coming before us in due course. It is not ready yet. I think that within the next few weeks it will be before the House for first reading.

Mr. REID: Mr. Chairman, I have one or two questions I want to ask about that same line. There is one point about it that interests me, that is the question of municipal taxes you have to pay after you become the owner of this line and operate it; or, do you pay municipal taxes on it now?

Mr. VAUGHAN: We pay all municipal taxes now.

Mr. REID: You do?

Mr. VAUGHAN: Yes.

Mr. REID: And you pay a straight rental for the use of the road and also pay the municipal taxes?

Mr. VAUGHAN: That $300,000 is merely the amount we pay for our right to use their tracks.

Mr. REID: And so you will have no more taxes to pay after the acquisition of the line that you paid, let us say last year?

Mr. VAUGHAN: No.

Mr. REID: Do American funds enter into this contract at all?

Mr. VAUGHAN: No, sir; we would pay them in Canadian funds.

Mr. REID: And the rental is paid in Canadian funds?

Mr. VAUGHAN: In Canadian funds.

Mr. POULIOT: While we are discussing the acquisition of railways, have you given any consideration to the acquisition of the Temiscouata Railway?

Mr. VAUGHAN: That has been considered at different times, Mr. Pouliot; but we have never yet felt that it would be to our interest to acquire that railway.

Mr. POULIOT: You know that that is the only link between the Transcontinental Railway and the Intercolonial?

Mr. VAUGHAN: It is still being operated by the present owners. That link is there.

Mr. POULIOT: Yes, but it would be a fine outlet for linking up between the St. Lawrence River and the valley of the St. John River, and Maine and other points of the States.

Mr. VAUGHAN: The Temiscouata has been an active subject at different times. We do lend them some little assistance in connection with their operations, as you probably know.

Mr. POULIOT: I know that.

Mr. VAUGHAN: That is a matter which will have to be dealt with at some future time.

Mr. POULIOT: But the door is not closed?

Mr. VAUGHAN: It is not very wide open, but it is not closed.

Mr. REID: With regard to this line which is being purchased, do you consider that it will be a profitable line to operate? Would it not be more economical to consider bus and truck service in that area? There are 340 miles along there on which you have spent nearly a million dollars for improvements up to the present time, and you are now going to spend $7,000,000. I am asking you the question, do you think this is a profitable investment, or could that area be served by bus and truck?

Mr. VAUGHAN: These are lines we could never do without. They were the nucleus of the Canadian Northern Railway in the province of Manitoba. The saving is almost entirely due to the fact that we can borrow money and purchase the line for considerably less than it was costing us to lease it. That is the only saving.

Hon. Mr. CHEVRIER: Even if the line were operating unprofitably you are still saving $90,000?

Mr. VAUGHAN: That is right.

Mr. WALTON: In reply to Mr. Reid's question in regard to trucks, these lines produce a very large amount of grain, and that puts them out of the truck field in as far as taking care of the territory entirely by trucks is concerned.

The Acting Chairman: Are there any further questions you would like to ask on the budget?

Mr. Jackman: On page 3 (*a*) of the budget.

Mr. Pouliot: Before we leave that, I want to pay tribute to Mr. J. P. Johnson, Vice-President of Canadian National Railways at Moncton, for the excellent work he has done throughout the period of war. His job has been a very difficult one and he has done it extremely well. I should also like to pay a special tribute to Mr. Frank Griffin, General Superintendent at Quebec City. I think he has done remarkably well.

Mr. Vaughan: Thank you, Mr. Pouliot, we will be very glad to pass that on to them. We think they have both done an excellent job.

Mr. Pouliot: It was very difficult, and very well done.

Mr. Vaughan: Yes.

Mr. Jackman: On page 3 (*a*), Mr. Chairman, additions and betterments—large passenger terminals, $326,725; might I ask where that is being planned?

Mr. Cooper: Which is the particular region, Mr. Jackman?

Mr. Jackman: I notice it says large passenger terminals. I do not suppose there are very many large ones, Mr. Cooper?

Mr. Cooper: Edmonton is the one concerned.

Mr. Jackman: Do you think the whole amount will be spent there, largely?

Mr. Cooper: $159,000 of the $266,000 for the western region is Edmonton.

Mr. Jackman: That is quite a nice addition at Edmonton. What are you doing to it?

Mr. Vaughan: We are altering the station and putting in additional office accommodation so that we will have better facilities there, and perhaps save some uptown office accommodation.

Mr. Jackman: Is there more traffic arising out of that area?

Mr. Vaughan: That is correct. Edmonton is a very, very important point.

Mr. Walton: The whole item for the western region is at Edmonton. The post office department are considering a new building as an extension to our station on the east side. That involves taking down the building that we have been using for office accommodation, and we are placing that office accommodation on the third floor, to be constructed on the present station.

Mr. Jackman: Was it found that, because of the tremendously increased volume of traffic in Edmonton during the war years, the accommodation was uncomfortable and inadequate to handle traffic?

Mr. Walton: It was definitely overcrowded.

Mr. Vaughan: Edmonton is a place which is growing rapidly; even since the war has ended, the volume of business there is being maintained.

Mr. Nicholson: You are losing money on the operation of the Northern Alberta Railway. Wouldn't that indicate that business in Edmonton is really falling off?

Mr. Vaughan: No, sir; the Northern Alberta uses our station there, but that is only a comparatively small branch line compared with the large number of lines we have in and about Edmonton.

Mr. Emmerson: With regard to equipment on page 3 (*a*), I note additions and betterment to equipment; would that refer to rolling stock?

Mr. Vaughan: Yes, sir.

Mr. Emmerson: I notice it provides for new equipment on the Grand Trunk Western lines; of course, the other is the American line. Why is it put to the Grand Trunk Western? You transfer equipment, do you not, from one region to another?

Mr. VAUGHAN: That equipment is equipment which is local to the Grand Trunk Western lines, and consists largely of putting in devices to take care of loading of automobiles. We serve a large number of big automobile plants over there, and these are special devices for the loading of automobiles.

Mr. NICHOLSON: What about this item of $1,207,000 for stations and station facilities? Where are they?

Mr. VAUGHAN: In the central region. What you see there are the plans for this year.

Mr. NICHOLSON: We are very short of building materials at the present time, but it would appear that you are going to make a considerable expenditure in your central region in spite of what was said about toilet facilities by one of the members yesterday. The member who brought that matter to attention is not in the committee of the moment, but if his region is to receive consideration of the type he requested yesterday, then I suggest that we in western Canada should be entitled to similar consideration. Out in Saskatchewan we have the same type of stations as those about which he complained, and we have just as severe, if not more severe winter weather. If these facilities are going to be improved with respect to one part of Canada, I submit they should be provided for other parts as well.

Mr. POULIOT: The situation is the same in the west.

Mr. NICHOLSON: Yes, we have even longer delays at terminal points than was mentioned by the member who spoke yesterday; and, as I said, our weather conditions are very much more severe, particularly the cold in the wintertime.

Hon. Mr. CHEVRIER: I am afraid Mr. Picard will take issue with you on that statement.

Mr. WALTON: You will notice that these items are spread pretty well across the country.

Mr. NICHOLSON: They are over half in the central region.

Mr. WALTON: Yes, but that is a very large territory. We are finishing a new station at Midland, Ontario, to replace one that was burned down. Then there are a number of small points where station buildings are being replaced, some in case of fire, and some where they are being added to. It is pretty generally distributed over the territory. Included in the same category is the erection of a 15,000 ton ice house in Montreal, which we have found to be a necessity, and that amounts to around $120,000 in one item alone.

Mr. NICHOLSON: Where they were lost by fire, there is no room for argument about the necessity; but where a new building is being put up where you have facilities at the present time, in view of the shortage of materials, these might be better served at a later date.

Mr. WALTON: This is not exclusively stations. There are items such as bunkhouses for employees at Quebec, and a yard office which is required at that point.

Mr. VAUGHAN: In fact I think the only new station that we have under construction, except perhaps a small station that was destroyed by fire is the Midland station; and that, of course, was to replace a station that was destroyed by fire. We are not making any great additions to stations at all. There may be the odd place where work is necessary. We are not going in for wholesale remodelling of stations at the present time.

Mr. NICHOLSON: How about in the western region? What are some of your larger items? There is almost half a million in the western region.

Mr. VAUGHAN: The largest item is Edmonton in the western region. That will take up most of that amount of money.

Mr. NICHOLSON: I think you gave that under large passenger terminals.

Mr. Vaughan: Yes.

Mr. Nicholson: Further down for stations and station facilities there is $448,000.

Mr. Vaughan: We can give you some of those particulars.

Mr. Walton: One item at Transcona is an ice house, $75,000. Then there are section buildings at a number of points, $5,000. There is a coal dock at Brandon, $20,000. They are largely operating items under this category.

Mr. Nicholson: Before we leave the budget I was going to ask you what happens to labour personnel as your revenues fall off. Assuming that your revenues fall off to the extent of 25 per cent, how soon is there a reflection in maintenance of way staff and the running crews? What is going to happen to your total working personnel if the revenues continue to fall off?

Mr. Walton: The running personnel feel the effect of it, I would say, immediately, or almost immediately. Station staffs, freight shed staffs, feel it practically immediately as business falls off, but in our maintenance of track and work such as that there will be a certain slowing because of work that is seasonable and has to be taken care of in the summer time without being tied in definitely with the level of earnings at the moment. So that their lay-offs ordinarily are retarded somewhat compared with the running men.

Mr. Jackman: In the event of such a condition as Mr. Nicholson describes, do the unions still ordain that the work shall be spread among a great number part time or does the seniority rule for full time apply?

Mr. Walton: The various wage agreements have clauses as to how reductions in staff shall be made in the event they are necessary, and in each case those requirements are complied with. In the running trades, as I mentioned the other day, there is a certain mileage that a man is entitled to for a month if he works. In work such as the shop trades there is a general provision that when lay-offs occur you start with the junior men and work up the list.

Mr. Jackman: Instead of spreading the time you still have to give your senior men full time and the recent employees have to be out in the cold?

Mr. Walton: That is the general arrangement unless the situation gets to a point where special negotiations take place in regard to a particular difficulty.

Mr. Jackman: So as far as spreading the work is concerned it is really out of your jurisdiction once a contract has been entered into with the respective unions?

Mr. Walton: That is right.

Mr. Nicholson: On page 4 we have a list of the new equipment purchases. I presume these estimates have been made as a result of your estimated revenues for the year. Assuming that your revenues had been 25 per cent greater would it have been possible to have increased your purchases of new equipment to provide additional employment in the matter of coaches or switches or express cars? Is this sort of item affected by the dropping off of revenues?

Mr. Vaughan: If there had been a prospect of our earnings being maintained at war levels no doubt we would have thought it necessary and desirable to order more new equipment, but with the prospect of declining revenues we feel that this equipment here will take care of our needs for the time being.

Mr. Jackman: Is there anything in that item of subsidiary companies, $1,967,000, under the additions and betterments budget, of interest to the committee? It is about $2,000,000.

Mr. Vaughan: There is $1,500,000 of that provided this year for a new vessel for our Pacific coast steamships.

Mr. Pouliot: What page is that? Page 5?

Mr. JACKMAN: No, on page 3-A, the fourth item from the bottom of the page.

Mr. GIBSON: Are you building that boat in Vancouver?

Mr. VAUGHAN: We do not know yet.

Mr. GIBSON: The contract has not been let?

Mr. VAUGHAN: The contract has not been let.

Mr. REID: In regard to mail how seriously would the income of the railways be reduced if all mail were to be carried by plane instead of by train?

Mr. VAUGHAN: Have you got a statement there of total mail earnings?

Mr. COOPER: $4,204,000.

Mr. REID: So it would really affect the revenues of the company to quite an extent if all mail were carried by plane? There is quite an agitation being made to carry mail by plane. Those who advocate it want quick mail.

Mr. VAUGHAN: I suppose it will be a long time before that will be done for short distances.

Mr. REID: But it would affect the earnings of the company.

Mr. VAUGHAN: That is our total earnings on mails, and anything that is taken away from us would affect us to that extent.

Mr. NICHOLSON: Could we have that figure for the revenue from mails again, and I wonder if Mr. Cooper has the comparable figures for the Canadian Pacific Railway?

Mr. REID: It is important in the light of impending events.

Mr. COOPER: In 1945 our mail revenue was $4,204,000.

Mr. REID: How many millions?

Mr. COOPER: $4,204,000. Singularly enough in 1944 the mail revenue was $4,204,000. The Canadian Pacific mail revenue in 1945 was $4,040,000.

Mr. NICHOLSON: The C.N.R. has about 60 per cent of the mileage in Canad as compared to the C.P.R.

Mr. VAUGHAN: It is much greater than theirs.

Mr. NICHOLSON: You have about 60 per cent and they have about 40; is that about right?

Mr. VAUGHAN: Yes, I would think so.

Mr. REID: Are you giving any consideration yet as to where you might have these diesel driven cargo vessels built? Have any steps been taken in that regard?

Mr. VAUGHAN: They have been under construction for a long time. They were a part of the wartime shipbuilding program. They were well under way before the war ended, and we are buying them from the wartime shipbuilding. They are not boats that have been ordered recently. They have been under construction for some time.

Mr. REID: Is that vessel from the Park Steamships a 10,000 tonner or is it one of the 4,700 tonners?

Mr. VAUGHAN: It is one of the smaller boats.

Mr. POULIOT: Mr. Vaughan, I am most interested in that matter. I wonder if your subsidiary company have bought some of the 10,000 ton boats that have been built during the war?

Mr. VAUGHAN: We have not bought any of the 10,000 ton boats. We have bought one of the 4,700 tonners.

Mr. POULIOT: Now, Mr. Vaughan, what is the total fleet of your subsidiary company?

Mr. VAUGHAN: I think it is the intention after this is over to go into the Canadian National Steamships, and I have a statement on that.

Mr. POULIOT: It will be included in that?

Mr. VAUGHAN: Yes.

Mr. POULIOT: The Canadian National Steamships will include the triangle tour and everything of that nature?

Mr. VAUGHAN: No, the triangle tour is not included in the Canadian National West Indies Steamships. We have a separate company called the Canadian National West Indies Steamships, and we have a separate report for that which we will come to as soon as we are through with the budget.

Mr. REID: I would move the adoption of the budget.

Mr. JACKMAN: I think Mr. Pouliot has some questions on the triangle tour. That is now before us if we want to discuss it. It does not come under the West Indies.

Hon. Mr. CHEVRIER: The annual report and the budget of the Canadian National West Indies Steamships will be discussed and I think Mr. Pouliot could bring it up then.

Mr. REID: I would movė the adoption of the budget.

Mr. JACKMAN: May I ask a question about the Windsor station? We are all finished with the capital cost of the Windsor station in Montreal?

Mr. WALTON: That is the C.P.R. station.

Mr. VAUGHAN: What we call our Central station.

Mr. JACKMAN: What is the total cost of that station up to now?

Mr. VAUGHAN: Have you got the figure, Mr. Cooper?

Mr. COOPER: I do not think I have that figure.

Mr. JACKMAN: I think you should advertise the name of that station a bit. I have never heard the name of it before.

Hon. Mr. CHEVRIER: There is no expenditure covered in last year's budget of this year's budget for the Central station?

Mr. VAUGHAN: Is there any item in our current budget for the Central station?

Mr. COOPER: It would be a very small item. The station is finished.

Mr. VAUGHAN: We consider that the station is finished. There may be some things turn up later on to be done, but for all practical purposes the station is finished.

Mr. JACKMAN: How many storeys above the ground are you now? You have got a projected plan to make an office building there?

Mr. VAUGHAN: That would not be an addition to the station. If we put up an office building it would be in front of the station fronting on Dorchester street.

Mr. JACKMAN: You would not use the foundation at all?

Mr. VAUGHAN: No.

Mr. NICHOLSON: It has been taxed to capacity during the war.

Mr. VAUGHAN: It was certainly taxed to capacity during the war but is plenty big enough for normal times.

Mr. REID: Although I moved the adoption of the report there is one question I should like to ask. Has any thought been given to the transcontinental trains having more time in the city of Ottawa? The parliament of Canada on behalf of the people has spent millions of dollars to make this a capital worthy of being seen by visitors and a credit to the country, and yet those who travel across the country complain, and have complained to me and I suppose to you,

that when the train comes into Ottawa, fifteen or twenty minutes is all the time that the train stops. I am thinking of people from eastern and western points. The train is going to Montreal, the great terminus, but I am thinking of Ottawa, the capital of Canada. I am thinking of it as an inducement to the travelling public to see the capital. You stop at Edmonton for forty-five minutes. You stop at Winnipeg for sometimes an hour and a quarter which allows people to run around the city. Yet when you come to the capital of Canada they can hardly get off the train to see where the parliament buildings are. They are told, "Oh, do not go out of the station; the train will be leaving." I am wondering if any thought has been given by your company to a train schedule that would allow the people of Canada who are travelling across the dominion to have a little time to see these buildings in the capital city.

Mr. VAUGHAN: We have given consideration to that. I doubt if it would be practical to stop here for any length of time with these transcontinental trains. They have got a long distance to go. Particularly in winter they have got very severe weather conditions to encounter, and it is a difficult enough job as it is now to get them over the road. I think that if people want to see Ottawa and stop there for some time it is going to be necessary for them to travel on other than the transcontinental trains. I do not think it would be practical to do it. We would never get our trains over the road.

Mr. NICHOLSON: You have two or three trains daily between here and Montreal?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: There are other trains if they wish to stop over.

Mr. JACKMAN: Stop over for the evening and hear the bagpipes.

Mr. REID: They might as well be soaked here as somewhere else.

Mr. JACKMAN: Taking the opposite view, why do both your train and the C.P.R. train stop for an hour or an hour and ten minutes in Winnipeg and some of those other places?

Mr. VAUGHAN: There is a great deal of servicing to be done to these trains in Winnipeg. They have to make certain connections there. That is the pivotal point for servicing those trains on the way to the Pacific coast.

Mr. JACKMAN: There is only the servicing of the engine. There is nothing done to the cars?

Mr. VAUGHAN: You have got to put ice in them. You have got to put supplies on dining cars and sleeping cars. There is a lot of work to be done there.

Mr. JACKMAN: It cannot be speeded up much?

Mr. WALTON: I do not think the time can be shortened.

Mr. VAUGHAN: That has been given very careful consideration.

Mr. POULIOT: If there were a fine statue of bureaucracy in the yards all the passengers would know they had reached Ottawa.

Mr. REID: They would know long before seeing that.

Mr. POULIOT: What I have said is not at all a reflection on the Department of Transport which is very well managed and soundly headed.

Hon. Mr. CHEVRIER: I did not take it as such, Mr. Pouliot.

Mr. NICHOLSON: I wonder if you would give any further consideration to running your trains west from Winnipeg twelve hours apart. You run two trains west to Vancouver about an hour apart. It has seemed to me that if those trains could be spaced twelve hours apart it would give the people all along the line better service. The same thing would apply coming

east out of Vancouver. Both the C.P.R. and C.N.R. trains leave at the same time at night. Could you not run one out in the morning to give people a chance to see the mountains?

Mr. WALTON: We have given some thought to that kind of program. It has not so far been feasible. It might be that something of that kind can be worked out. I want to assure you that it is being studied very carefully. Up to the present time the loading of the two trains has not permitted transferring part of the load say at Winnipeg to one train and then letting the other remain over until evening west of that point. We would in the past have been forced into additional train service to do it. We may reach a point where it is feasible.

Mr. NICHOLSON: Would not the summer months be a good time to try that when you have a lot of tourist traffic?

Mr. WALTON: That is the time when we could not do it.

Mr. REID: I move the adoption of the report.

Mr. HAZEN: Before the report is adopted, Mr. McLure, one of the members of this committee, is unavoidably absent. If he were here I know he would bring up the question of the cost of transportation on the ferry to Prince Edward Island.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Last year I think it was pointed out that if you loaded a 5-ton truck with potatoes on the Island, took it across on the ferry and came back with a load it cost the operator of that truck $60 or $65 to cover a distance of about 14 miles. That is to transport a comparatively small amount of produce. I am not familiar with the matter, but the question I have in mind to ask you is has any further consideration been given to those costs?

Mr. VAUGHAN: Since our last meeting that matter has been taken up by the Prince Edward Islanders before the Board of Transport, and it now is there, so that all arguments will be brought out before the Board of Transport. I presume in due course they will give their judgment on the subject.

Hon. Mr. CHEVRIER: Perhaps I could add that during the discussion of the estimates of the department towards the end of last session there was some discussion on it and I gave Mr. McLure what information I had at the time. I think I indicated to him then that there would be an application go forward to the Board of Transport Commissioners which is the body that has authority to decide on the question of rates. I think if he were here that is the only answer that could be given to him at the moment.

Mr. JACKMAN: In the case of the Windsor station what was your final cost?

Mr. COOPER: Central station.

Mr. JACKMAN: Excuse me.

Mr. COOPER: The cost of the main terminal to the end of 1944 was $13,029,000.

Mr. JACKMAN: For the terminal?

Mr. COOPER: The main terminal.

Mr. NICHOLSON: That includes some new tracks you put in?

Mr. COOPER: Yes, it includes everything in the station area.

Mr. JACKMAN: What makes up the $30,000,000 odd?

Mr. COOPER: If you go out to Eastern Junction and Mount Royal the whole cost of the Montreal terminal development to the end of 1944 was $27,543,000.

Mr. JACKMAN: That was the cost to the railway, and then there were a few millions in unemployment relief given by the government which do not enter into the account.

Mr. COOPER: The figure I have quoted included a credit of $1,490,000 which was a contribution by the dominion government for unemployment relief.

Mr. JACKMAN: That is included in the $27,000,000?

Mr. COOPER: It is deducted from the gross cost to arrive at the $27,000,000.

Mr. VAUGHAN: Much of that work outside of the $13,000,000 for the main terminal would have been necessary whether a new station had been built or not.

Mr. JACKMAN: May I ask what your passenger revenues were running at in the pre-war years? We have them for the present year in the statement before us, $65,000,000.

Mr. COOPER: In 1939 our passenger revenues were $17,817,000.

The ACTING CHAIRMAN: Will somebody second Mr. Reid's motion?

Mr. HAZEN: Could we have the freight revenues for 1939, too?

Mr. COOPER: $160,255,000.

The ACTING CHAIRMAN: It has been moved by Mr. Reid and seconded by Mr. Picard that this report be adopted. All those in favour signify by saying aye.

Mr. JACKMAN: I want to put in a rider in regard to that Northern Manitoba purchase. I do not know whether or not I should go on record here, but if one does go on record in this committee—

Hon. Mr. CHEVRIER: I can assure you you will have every opportunity to discuss it in the House.

Mr. JACKMAN: I do not want it to go on record that we passed the budget unanimously without having that matter gone into. May I ask the minister why it has to come before the House?

Hon. Mr. CHEVRIER: The Railway Act provides that the acquisition of a new line must be subject to the approval of parliament.

The ACTING CHAIRMAN: All those in favour signify by saying aye.

(Carried).

Mr. JACKMAN: On division.

The VICE-CHAIRMAN: We will pass on to the Canadian National West Indies Steamships annual report. I would ask Mr. Vaughan to read the report.

Mr. VAUGHAN: With your permission I should like first to read a statement in connection with the Canadian National West Indies Steamships.

Now that the war is over and the affairs of Canadian National (West Indies) Steamships can be discussed with more freedom I think it would be an advantage to give a short history of the line with particular reference to the financial results of operations. I feel there is a fairly widespread misconception in this matter. The general impression seems to be that the operation of the line has not been successful but this impression is far from being a correct one.

The Company was incorporated in 1927 to implement the Canada-West Indies trade agreement of July 6, 1925. The entire share capital of the Company is $40,000 all owned by the Dominion Government.

The trade agreement of 1925 replaced a former agreement negotiated in 1920. Under the 1920 agreement (and a predecessor agreement of 1912) the Royal Mail Steam Packet Company had operated four ships on a fortnightly service between Canada and the eastern group of islands for which the Company was paid an annual subsidy of $340,666.66. Under the 1920 agreement, Canada also undertook to provide a service to the western group of islands and this service was assigned to the Canadian government merchant marine. Under the agreement the respective island governments undertook to contribute 25 per cent of the loss incurred in operating the service, limited however to a maximum

contribution of £3,000 per annum from the Bahamas, £5,000 from Jamaica and £5,000 from British Honduras. The service was not remunerative largely due to unsuitability of the vessels to the trade.

The Royal Mail Steam Packet Company withdrew from the eastern service in 1927 and the service was then turned over to the Canadian government merchant marine for operation. The Canadian government merchant marine thereafter continued to operate both the eastern and western services until the Canadian National (West Indies) Steamships commenced operations.

Under the 1925 trade agreement Canada had undertaken to provide certain ship tonnages and services for which tenders were invited from steamship interests. Two tenders were received by the Canadian government for the eastern service, one from the Royal Mail Steam Packet Company and the other from Canadian National Steamships. In the case of the western service, the Canadian National Steamships was the only tenderer. For the eastern service the Royal Mail Steam Packet Company submitted two proposals:—

(*a*) They would operate a fortnightly mail, passenger and freight service with four new 12 knot passenger vessels in accordance with the trade agreement, for which they asked an annual subsidy of $582,783.33 and to have the privilege of optional calls at one U.S.A. port in one or both directions.

(*b*) They would perform the service every twelve days with smaller ships for an annual subsidy of $534,116.67 with the privilege of a call at U.S.A. ports and provided that there should be no competition from government owned or controlled vessels.

The proposals of the Royal Mail Steam Packet Company were not acceptable to the government and the Canadian National (West Indies) Steamships Ltd. was incorporated for the purpose of carrying out the services called for in the trade agreement.

Five passenger vessels were constructed by Cammell, Laird & Company, Birkenhead, England, these being:

	Gross Tonnage	Deadweight Tonnage	Total Cost
Lady Drake	7,985	6,370	$1,694,718 11
Lady Hawkins	7,989	6,370	1,689,284 11
Lady Nelson	7,970	6,370	1,685,730 12
Lady Rodney	8,194	4,665	1,784,672 30
Lady Somers	8,194	4,665	1,779,694 67

Six freight vessels were transferred from the Canadian government merchant marine, these being:

Cathcart	3,708	2,950	$ 443,672 48
Cavelier	1,769	2,781	425,770 36
Chomedy	6,136	8,600	500,739 02
Colborne	6,230	8,650	500,724 02
Cornwallis	5,458	8,390	167,564 02
Connector	1,769	2,781	286,759 85
			$10,969,329 06

The cost involved in the purchase of the fleet of eleven vessels was financed from the proceeds of a $9,400,000 5 per cent Dominion Government guaranteed bond issue due in 1955 together with certain capital cash advances from the Dominion Government. The Company forthwith embarked on an intensive programme in an endeavour to develop trade, both freight and passenger, between Canada and the Islands.

The balance sheet of the Company at the end of 1945 shows that for the whole period of operations (1929-1945) there has been an overall loss of $4,963,633.22. The balance sheet however is not necessarily a final summation of all the gains or losses resulting from the operation of Canadian National

(West Indies) Steamships and some further analysis is necessary before a conclusion can be reached as to whether or not the line has been a financial success. From the deficit of $4,963,633 there should be deducted the amount of the insurance reserve, $1,260,880 which has been built up out of operations and which is nothing more nor less than surplus in a winding up of the Company. It will thus be seen that the overall loss has been $3,702,753 which, spread over the seventeen years of operation, gives an annual loss of $218,000.

In arriving at the total loss of $3,702,753 there has been charged $4,333,615 for interest paid to the Government. These interest payments have been in respect of advances both for capital and for operation. I have no objection to being charged for interest on amounts used for capital purposes but we have taken objection to being charged interests on amounts lost in the early years of operation. Such advances do not produce assets capable of earning any return. Not only did we object to the policy but we also objected to the rate of interest which in our opinion was excessive. The interest rate was 5 per cent which rate was continued to the end of 1943 when it was reduced to 2½ per cent. Of the total Government interest of $4,333,615, $3,226,616 represents interest on deficit advances. It will be seen therefore that the deficit of the Company to the end of 1945 represents, broadly speaking, interest paid to the Dominion Government on its advances for deficits incurred in the early years of operation when the line was being developed and which unfortunately coincided with the years of business depression.

It must be remembered further that our operations have been restricted to and governed by the conditions of the trade agreement requiring calls at certain ports and the maintenance of specific services which would not have otherwise been undertaken if we had had regard only to the financial results of operation. In the case of the Kingston-Belize service, for instance, the deficit on this operation to 1941 was $1,270,149. No private operator would have undertaken this service without a subsidy payment.

Now I wish to mention some of the gains to Canada which are not reflected in the balance sheet. By the decision to assign these services to Canadian National (West Indies) Steamships Canada saved all subsidy payments to private operators. For the Eastern service alone the Royal Mail Steam Packet Company which was the only private company which tendered asked a subsidy of $582,000 per annum. Estimating the subsidy which would have been payable for the Western service and applying the subsidy payments actually received from the Island Governments during the period 1929-1941 (when the service was curtailed due to war conditions) it is estimated Canada has saved $12,870,000 in subsidy payments by reason of the operation of these services by our ships.

During the period of operations export cargoes from Canada to the Islands totalled 2,458,628 tons which had a trade value in excess of $208 millions. Import tonnage totalled 3,381,159 tons with an estimated trade value in excess of $114 millions. The import tonnage included 25,158,300 stems of bananas imported during the period 1929-1942. The regularity and dependability of the service maintained to the beginning of the war period did much to improve trade relations between Canada and the West Indies Islands. This gain to Canada is not reflected in our balance sheet.

The Company has been required to carry all mail free, the contention being that subsidy payments by the various Island Governments cover the conveyance of mail. It is estimated that mail revenue at "going rates" would have amounted to $20,000 per annum.

It should also be pointed out that the Company has created considerable employment, the total wages paid being in excess of $16,250,000. The Company has been a large purchaser of fuel and provisions, and the maintenance and overhaul of the vessels has provided considerable work for Canadian shipyards.

The operation of the fleet has also been of inestimable value in affording to Canadian citizens the opportunity for seafaring work and this was well demonstrated by the ready response of so many of our officers and seamen for service in the Canadian Navy and Merchant Marine at the outbreak of war. The availability of experienced men at that time was an important factor in establishing Canadian Naval and Merchant Services so efficiently and expeditiously when they were so urgently required.

I think, therefore, the members of the Committee will have no difficulty in agreeing with me that the West Indies services which we have provided have been highly successful and that there is ample justification for their continuance. It is for these reasons that the directors in the annual report have stated that much consideration is being given to the future operations of the Company and that the line should not be allowed to become a war casualty.

Mr. POULIOT: Hear, hear.

Mr. REID: My first question is this: are the Islands' government still paying you subsidies, as outlined on page 1 of your brief, under that old agreement of 1920?

Mr. VAUGHAN: No, sir. Those subsidy payments were reduced during the war.

Hon. Mr. CHEVRIER: The agreement is still in operation.

Mr. COOPER: The Islands' governments were under an agreement to pay a total subsidy of £45,500 per annum. In 1945, due to the curtailment of services, the subsidy payments were £29,850.

Mr. REID: And what about their agreement to pay you twenty-five per cent of the loss?

Mr. COOPER: They only agreed to pay twenty-five per cent of the loss up to the amount of the fixed subsidy payment, and that was in respect to the prior services, not in respect to current service. The obligation under the trade treaty in 1926-1927 was limited to £45,500 per annum.

Mr. REID: And these subsidy payments go to the credit of the Steamships company or the government?

Mr. VAUGHAN: They go to the credit of the operation of the steamships.

Mr. REID: And that takes care of the carrying of mail.

Mr. JACKMAN: May I ask what the status of the agreement is now; is it in operation?

Mr. VAUGHAN: What is that?

Mr. JACKMAN: What is the status of the agreement in 1946?

Mr. VAUGHAN: I believe the agreement has expired and has not yet, so far as I know, been renewed.

Mr. JACKMAN: Has the service been requested?

Mr. VAUGHAN: We have carried the service on all during the war; not making all the calls required under the agreement, but we have operated a service. Last year we operated a fleet of over twenty vessels. We continued operations all during the war except for passenger service, and we have not had the boats with which to give the full service.

Mr. JACKMAN: I am just wondering what the alternative would be if a new agreement is not arrived at by parliament.

Mr. VAUGHAN: We believe that it would still be possible to operate these vessels.

Mr. JACKMAN: Without a subsidy?

Mr. POULIOT: What are your suggestions, Mr. Vaughan? I have listened with very great interest to what you have said. Now, may I ask you this: if the subsidy of $582,000 had been paid during the thirteen years from 1929 to 1941,

the government of Canada would have paid $12,870,000 which they did not have to pay because the Royal Mail Steam Packet Company did not operate.

Mr. VAUGHAN: Yes, sir; they saved that amount of money.

Mr. POULIOT: Exactly. You had to pay five per cent of this over a certain period of time?

Mr. VAUGHAN: We paid five per cent on the losses sustained in the early stages.

Mr. POULIOT: And this rate has been reduced to two and a half per cent?

Mr. VAUGHAN: Yes, in 1943.

Mr. POULIOT: The operations of your ships were subject to the emergency of war?

Mr. VAUGHAN: Their movements were controlled to some extent by Admiralty.

Mr. POULIOT: They were under Admiralty control?

Mr. VAUGHAN: Yes.

Mr. POULIOT: As were all ocean-going ships. And now, Mr. Vaughan, what I would like to know is what are your suggestions for putting the Canadian National Steamships back on the same level of efficiency as they were prior to the war?

Mr. VAUGHAN: I think if you will permit me to read this report, Mr. Pouliot, it will give you some of the information you desire:

MONTREAL, MARCH 15, 1946.

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.,
MINISTER OF TRANSPORT, OTTAWA.

Sir,

On behalf of the Board of Directors of Canadian National (West Indies) Steamships, Limited, I beg to submit the Annual Report of the Company for the calendar year 1945.

The operating results for the year compare with the previous year as follows:

	1945	1944	Decrease	Per cent
Operating revenues	$4,412,251 34	$5,378,058 55	$965,807 21	17·96
Operating expenses	2,849 091 51	3,403,725 74	554,634 23	16·30
Operating profit	1,563,159 83	$1,974,332 81	$411,172 98	

The operating accounts reflect a reduced level of business in 1945 as compared with the previous year. The number of voyages completed was 23 as compared with 25 in 1944 and there was a reduction of 23,117 tons in export tonnage and 31,880 tons in import tonnage. Freight revenue for the year amounted to $3,155,714 against $4,125,593 the previous year, a decrease of $969,879 or 23·5%. Passenger revenue increased from $8,231 in 1944 to $55,325 in 1945 due to resumption of limited passenger service, but the available passenger accommodation was quite insufficient to cope with the numerous requests for passage during the second half of the year.

Earnings from investment of the Vessel Replacement Fund amounted to $216,842, which added to the operating profit made the gross income of $1,780,001. From this there was paid $520,916 for bond interest and exchange and $142,999 for interest on Government advances, leaving an income surplus for the year of $1,116,085.

This income surplus was utilized as follows: $632,080 was paid to the Government in final discharge of all capital and working capital advances, the earnings of the Vessel Replacement Fund, $216,842, were retained in the

Fund, and the remainder, $267,162, was set aside as additional depreciation in view of the decision to dispose of certain of the older vessels in the immediate future.

With the cessation of hostilities and the consequent removal of wartime secrecy, it would seem appropriate at this time to review the activities of the Company during the war years. At the outbreak of war the fleet comprised the following eleven vessels:

	Gross Tonnage	Deadweight Tonnage
Lady Drake	7,985	6,370
Lady Hawkins	7,989	6,370
Lady Nelson	7,970	6,370
Lady Rodney	8,194	4,665
Lady Somers	8,194	4,665
Cathcart	3,708	2,950
Cavelier	3,663	2,950
Chomedy	6,136	8,600
Colborne	6,230	8,650
Cornwallis	5,458	8,390
Connector	1,789	2,781
	67,316	62,761

During the year 1940 services operated with considerable irregularity as to scheduled times of departure and arrival, and on October 3, 1940, the "Lady Somers" was requisitioned by the United Kingdom naval authorities.

On July 15, 1941, the "Lady Somers" was lost through enemy action, her complement of 175 naval officers and men all being saved.

At the direction of the Canadian Shipping Board the "Cornwallis" was dispatched to the Far East in July 1941, followed by the "Chomedy" in August and the "Colborne" in September. Each vessel completed two voyages before the fall of Singapore on February 15, 1942.

On January 19, 1942, the "Lady Hawkins" was lost through enemy action. The vessel sailed from Boston on January 16th with 211 passengers and a crew of 110. Of the entire ship's company only seventy were saved. The survivors were landed at San Juan, Puerto Rico, on January 28, by the SS "Coamo."

On March 9, 1942, while lying in the port of Castries, St. Lucia, B.W.I., the "Lady Nelson" was torpedoed and seriously damaged. Fifteen passengers and three crew members were killed and many others seriously injured. The vessel was salvaged, however, and towed to Mobile, Alabama, arriving May 29, 1942. Whilst in drydock at Mobile for necessary repairs it was decided that the vessel should be fitted out as a hospital ship and chartered to the Department of National Defence. Repairs and conversion were completed on February 18, 1943. Her first sailing as a hospital ship was on May 1, 1943, from Halifax.

On May 4, 1942, the "Lady Drake" was torpedoed with a loss of six passengers and six crew members. The vessel left Bermuda on May 3 with a complement of 141 passengers, a crew of 113 and eleven members of the crew of the "Lady Nelson" who were being repatriated. The survivors were returned to Bermuda by the SS. "Owl".

In June 1942 it was decided that the "Lady Rodney" should be placed in Government service as a troopship plying between Canada, Newfoundland and Labrador and the vessel was consequently chartered to the Department of National Defence. In October 1945 this vessel, still under the charter to the Government, was transferred to troop repatriation service.

On September 11, 1942, the "Cornwallis" was torpedoed while lying at Bridgetown, Barbados. The vessel did not sink and after salvage operations was towed to Mobile for repairs, which were completed in July 1943.

In December 1943 the "Connector", which had been withdrawn from inter-island service in 1941 and brought to Canada for home duties, was chartered to the Jamaican Government for service between Kingston, Jamaica, and Tampa, Florida, and this charter is still in effect.

On December 3, 1944, the "Cornwallis" was torpedoed off the Coast of Maine. The vessel carried a crew of forty and one repatriate, of whom only five crew members were saved.

At the end of hostilities therefore the fleet had suffered considerably, being reduced to the following seven vessels, with the "Lady Nelson" and the "Lady Rodney" still in Government service:

	Gross Tonnage	Deadweight Tonnage
Lady Nelson	7,970	6,370
Lady Rodney	8,194	4,665
Cathcart	3,708	2,950
Cavelier	3,663	2,950
Chomedy	6,136	8,600
Colborne	6,230	8,650
Connector	1,789	2,781
	37,690	36,966

In its efforts to maintain service to the West Indies and undertake certain charter runs for the Departments of Transport and Munitions and Supply, the Company augmented the fleet at various times throughout the period by chartering or operating under management agreement vessels of other owners.

The SS. "Canatco" and SS. "Dalwarnic" were leased from the Canada Atlantic Transit Company, the "Canatco" being lost on October 21, 1942, off the Labrador coast. The entire crew of thirty-six men was rescued by the accompanying naval escort. The "Dalwarnic" is still under lease and is being operated under charter party.

For varying periods seventeen vessels have been operated under operating agreements with the Park Steamship Company Limited, eight of these vessels being still in the service at the end of 1945. These were operated on a management fee and commission basis.

Four vessels were also operated for the Ministry of War Transport of the United Kingdom. They were returned to the Ministry late in 1945.

During the years 1940 to 1945 inclusive, the operating results, including depreciation on vessels, were as follows:

Year	Operating Revenues	Operating Expenses	Operating Profit
1940	$ 5,750,341 42	$ 4,874,386 38	$ 875,955 04
1941	6,756,463 57	5,291,751 92	1,464,711 65
1942	5,600,496 25	4,380,852 94	1,219,643 31
1943	4,492,188 94	3,188,578 72	1,303,610 22
1944	5,378,058 55	3,403,725 74	1,974,332 81
1945	4,412,251 34	2,849,091 51	1,563,159 83
	$32,389,800 07	$23,988,387 21	$8,401,412 86

Out of this operating profit interest was paid in United States funds on the Company's outstanding bond issue, which absorbed $3,224,012. Payments to the Government for interest were $3,412,353, and in repayment of capital were $1,765,047, a total payment to the Government of $5,177,400.

The insurance and other recovery for vessels lost during the period, depreciation accruals, and fund earnings have been placed in a separate Vessel Replacement Fund which at December 31, 1945, amounted to $6,740,407. The fund is invested in Victory Bonds.

Canadian National (West Indies) Steamships Limited commenced operations in 1929 in conformity with the West Indies Trade Agreement of July 6, 1925. Since that time its ships, flying the Canadian red ensign, have materially assisted in the expansion of Canada's external trade with Bermuda, the Leeward Islands, Windward Islands, Barbados, Trinidad, British Guiana, the Bahamas, Jamaica and British Honduras. They have carried 3,381,159 tons of import cargo and 2,458,628 tons of export cargo. Employment has been provided at sea for Canadian citizens and work has been provided for Canadian shipyards.

The "Lady" ships have been extremely popular in the tourist trade and numerous enquiries are being received as to when sailings are to be resumed. The line should not be allowed to become a war casualty. Much consideration is being given to the future operations of the Company. To provide for the immediate requirements it has been decided to purchase from War Assets Corporation three diesel powered cargo ships, each of 7,500 deadweight tonnage, with 16,000 feet of refrigerated space and a speed of 15 knots. These ships, now building for Wartime Shipbuilding Ltd., should be delivered to the Company

---

CONSOLIDATED

At 31st

ASSETS

Investments:			
Vessels		$5,558,668 15	
Less Accrued Depreciation		*3,252,748 09*	
		$2,305,920 06	
Vessel Replacement Fund		6,740,407 66	
			$ 9,046,327 72
Current Assets:			
Cash in Banks	$722,406 61		
Special Deposits	13,150 00		
		$ 735,556 61	
Accounts Receivable		1,115,719 67	
Freight, Passenger and Agency Balances		404,853 69	
Inventories		24,203 66	
Advances to Captains, Crews, etc.		26,938 29	
Due to Insurance and Vessel Replacement Funds		*257,048 24*	
			2,050,223 68
Insurance Fund			1,260,880 88
Discount on Capital Stock			40,000 00
			$12,397,432 28

CERTIFICATE

We have examined the books and records of the Canadian National (West Indies) and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated the Steamships as at the 31st December, 1945, and that the relative Income and Profit and

15th March, 1946.

during the late summer this year. One 4,700 tons (d.w.) ship has been purchased from the Park Steamship Company and four other similar "Park" ships will be acquired on a bare boat charter basis. The Company also desires the return of the "Lady Nelson" and the "Lady Rodney" as soon as they shall have completed troop repatriation duties and have been reconditioned to resume freight and passenger service.

The Directors desire to pay high tribute to the bravery and loyalty of the Company's officers and men during the dangerous and trying conditions of war-time operation. Many of them were called for naval service on the outbreak of war, and a good number both in naval service and the Company's own merchant service have been decorated for meritorious acts and faithful performance of duty. The Company will remember and honour those who were killed in the performance of duty, and to their bereaved families the Directors extend their deepest sympathy.

President.

BALANCE SHEET

DECEMBER, 1945

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100 each		$ 40,000 00
FUNDED DEBT:		
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due in 1955		9,400,000 00
DOMINION OF CANADA ADVANCES		5,059,960 94
CURRENT LIABILITIES:		
Accounts Payable	$1,136,423 60	
Interest Matured Unpaid	13,150 00	
Unmatured Interest Accrued	156,666 67	
Passage Money paid in Advance	26,392 35	
		1,332,632 62
UNADJUSTED CREDITS		267,591 06
INSURANCE RESERVE		1,260,880 88
PROFIT AND LOSS—*Deficit*		*4,963,633 22*
		$12,397,432 28

NOTE.—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER.
Vice-President and Comptroller.

OF AUDITORS

Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1945. Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of Loss Accounts for the year ended the 31st December, 1945, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

Operating Revenue:		
Freight	$3,155,714 43	$4,125,593 02
Passenger	55,325 89	8,231 61
Management Fees and Commissions, etc.	258,869 34	262,880 93
Subsidies	132,235 50	177,200 00
Charter	810,106 18	804,152 99
Total	$4,412,251 34	$5,378,058 55
Operating Expenses:		
Voyage Accounts	$2,397,075 48	$3,004,628 20
Depreciation on Vessels	279,466 28	243,158 05
Management and Office Salaries	132,436 44	119,685 66
Pensions	4,329 72	3,338 00
Other Expenses	35,783 59	32,915 83
Total	$2,849,091 51	$3,403,725 74
Operating Profit	$1,563,159 83	$1,974,332 81
Vessel Replacement Fund earnings	216,842 16	......
	$1,780,001 99	$1,974,332 81
Interest on Bonds held by Public	470,000 00	470,000 00
Exchange on U.S. Funds	50,916 66	51,700 00
Interest on Government Notes and Advances	142,999 42	181,246 06
Surplus	$1,116,085 91	$1,271,386 75

CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st December, 1945

Balance at 31st December, 1944—*Deficit*	*$8,070,061 51*
Vessel Replacement Reserve at 1st January, 1945, transferred	2,257,505 14
Surplus as per Income Account, year 1945	1,116,085 91
Adjustment of Depreciation Accruals for prior years	*267,162 76*
Balance at 31st December, 1945—*Deficit*	*$4,963,633 22*

Mr. Picard: What would be the new capital expenditure necessary to restore the service to what it was before the war?

Mr. Vaughan: You will find that in the Canadian National (West Indies) budget.

Mr. Picard: Where do we find that?

Hon. Mr. Chevrier: That is at the back of the budget for the Canadian National Railways.

Mr. Pouliot: Mr. Vaughan, I want to ask you this question, because I am very sympathetic with you, and because ships are a most important factor in our trade with other countries: You gave a figure of $12,870,000 which would have been the total amount of subsidy paid if subsidies had been continued to the Royal Mail Steam Packet Company.

Mr. Vaughan: Yes, or to other private companies.

Mr. Pouliot: Now, what has the government paid?

Mr. Vaughan: The government paid the losses sustained in the early years of operation and have charged us five per cent on those amounts as loans, and they have not credited us in any way with subsidies they would have paid to private lines.

Mr. Pouliot: I understand you, but I want to make it clear; how much did the Canadian government pay for losses sustained in the first years?

Mr. Vaughan: You have that, Mr. Cooper.

Mr. COOPER: All the advances were in the form of interest bearing loans, $5,059,000.

Mr. POULIOT: No, no; you did not get my question. My question was, how much was paid by the Canadian government to refund the losses sustained by the Canadian National Steamships in the first year of operation?

Mr. COOPER: First year, or years?

Mr. POULIOT: The losses sustained in the first year; I want to know how much was paid or advanced by the Canadian government to the company.

Mr. COOPER: In the first years of operation?

Mr. POULIOT: No, the first year, the losses. What Mr. Vaughan referred to.

Mr. JACKMAN: I think what he wants is the breakdown of your losses by years.

Mr. COOPER: In 1929 they advanced us $862,269; that was the loss for the year 1929. In 1930 they advanced us $992,000; in 1931 they advanced us $916,000; in 1932 they advanced us $753,000; in 1933 they advanced us $967,000; in 1934 they advanced us $566,000; and that makes a total of $5,059,000, they have not advanced us any money since that time.

Mr. POULIOT: $5,059,000; and how much did you pay in interest on that to the government?

Mr. COOPER: The interest on that was $3,266,000.

Mr. JACKMAN: Interest accumulated but not paid.

Mr. COOPER: Paid.

Mr. JACKMAN: Paid?

Mr. COOPER: Yes.

Mr. POULIOT: And it was at five per cent?

Mr. COOPER: It was five per cent up to the end of 1943 and then they reduced it to 2½ per cent.

Mr. POULIOT: And that amount of interest $3,266,000 is the interest paid until last year, including the interest at two and a half per cent?

Mr. COOPER: Five per cent up to the end of 1943, and 2·5 per cent from then down to the end of 1945.

Mr. POULIOT: That is the total of interest which has been paid by the Canadian National Steamships to the government on advances?

Mr. COOPER: For deficits.

Mr. POULIOT: And now if you will take your pencil, please; the Canadian government spent $7,811,000 less than if the subsidy had been paid.

Mr. COOPER: No, I do not think so. We paid the government $3,266,000.

Mr. POULIOT: No, no; I will come to that. If we consider in the first place the amount that would have been paid by the dominion government if a subsidy had been given, the total would have been $12,870,000; and, instead of spending that amount, the dominion government advanced $5,059,000 to cover the deficit in operation?

Mr. COOPER: Yes, sir.

Mr. POULIOT: Therefore the balance is $7,801,000.

Mr. COOPER: $7,811,000.

Mr. POULIOT: Yes, which the government did not spend because the subsidy was not granted on the same scale as it was paid before.

Mr. COOPER: You are absolutely right.

Mr. POULIOT: Well now beside that difference, that saving, the government received from Canadian National Steamships $3,266,000 for interest?

Mr. Cooper: That is correct, $3,266,000.

Mr. Pouliot: Yes, and if we add $7,811,000 to that amount of $3,266,000 it means that the money received by the government for interest, the difference between the potential amount that would have been paid for subsidies of $12,870,000 and the amount of $11,037,000, the difference would have been only $1,833,000?

Mr. Cooper: I do not follow that.

Mr. Pouliot: I want you to understand it, because it shows that the contribution of the government to the Canadian National West Indies Steamships was very small compared to the return in trade. In the first place we have the potential amount of subsidies that would have been paid, $12,870,000, less the advances made by the government, $5,059,000, leaving a favorable balance to the government of $7,811,000.

Mr. Cooper: Yes.

Mr. Pouliot: If we add to that favorable balance the amount that has been paid for interest we have a total sum of $11,037,000.

Mr. Cooper: That is correct.

Mr. Pouliot: The money that the government did not spend because the subsidy was not paid and the money that the government received for interest on advances, on deficits, and therefore the total of the savings and the receipt of interest is $11,037,000.

Mr. Cooper: Quite right.

Mr. Pouliot: If we deduct from the potential amount that would have been paid for subsidy, $12,870,000, what has been saved and received by the government, a total of $11,037,000, it means that the contribution of the government in money to the Canadian National West Indies Steamships has been only $1,833,000.

Mr. Cooper: I do not see why you make that deduction. May I put it this way? The government saved, by using the Canadian National West Indies Steamships in place of paying subsidies, $7,811,000.

Mr. Pouliot: Yes.

Hon. Mr. Chevrier: That is assuming that the government would have accepted the payment of a subsidy to the Royal Mail Steam Packet Company of $582,000.

Mr. Pouliot: Exactly.

Mr. Cooper: It is only on that assumption.

Hon. Mr. Chevrier: That is a very problematical assumption.

Mr. Vaughan: I might say that the $582,000 was only for one service. The government was obligated under the Canada West Indies agreement to provide two services, to the eastern island and the western island. The $582,000 was only for the eastern island service and no company would quote on the western island service, but it is fair to assume that the subsidy which would have been asked for the western service would have been higher than which was asked for the eastern service because traffic is not as profitable on the western service as the eastern service.

Mr. Pouliot: I understand that, but the only thing I want to do is to get the true picture. I want to help you because I find that the steamship company is of the utmost importance to Canada in many ways. What I want to point out to the committee is that if the government paid $5,059,000 to help the Canadian National West Indies Steamships they received interest from the company, and if we add the amount of interest which has been actually received by the government on the previous advances to the saving of money which occurred because a subsidy was not granted, although it is problematical, we have a total amount of $11,037,000.

Mr. Cooper: Yes. I think you should stop there. I think you should stop there because that is the advantage to government on the assumption, as the minister said, that they would have paid a subsidy. There was a gain to Canada on the subsidy account of $7,811,000, and in addition Canada received interest amounting to $3,226,000.

Mr. Pouliot: Yes, and you will understand me because I want to make my position just as clear as possible. We still have the potential amount of $12,870,000, the total amount of subsidy that would have been paid.

Mr. Nicholson: You have already taken that into account, have you not?

Mr. Pouliot: No, no. I have mentioned it. I am taking what the government has not spent and what the government has received, and if we add the two together we have $11,037,000 to deduct from that potential expenditure of $12,870,000 if the subsidy had been paid, and therefore the government has actually spent a total of $1,833,000.

Mr. Cooper: No, I think you are rather unfair to your own argument. I believe that the benefit to Canada by the operation of these services by our ships in respect of the matter we have been discussing is $11,037,000.

Mr. Picard: I think the last figure submitted by Mr. Pouliot as the deduction of the $11,000,000 from the $12,000,000 is the amount that the government has saved, has not paid.

Mr. Pouliot: Has not paid.

Mr. Picard: It might have paid $12,000,000, and it has received in fact, $11,000,000 so that the $1,000,000 odd left is the saving to the government.

Mr. Pouliot: Besides that you have carried the mail free?

Mr. Vaughan: Yes, sir.

Mr. Cooper: And we have brought in imports or made exports amounting to a value of $322,000,000.

Mr. Pouliot: Exactly. Were you the only company that gave a direct service on a regular schedule?

Mr. Vaughan: I think it is fair to say we were the only company giving a service on a regular schedule. I think Pickford and Black of Halifax operated a few small boats to the western islands, that is, to Jamaica. I do not think that any company operated to the eastern islands during that period except perhaps schooners.

Mr. Pouliot: You were the only Canadian company that gave regular passenger service?

Mr. Vaughan: Yes, sir.

Hon. Mr. Chevrier: Were there not some American companies calling at Halifax and Montreal, the United Fruit people?

Mr. Vaughan: There were no other passenger liners coming to Canada from the West Indies. We were the only company that gave any passenger service at all from or to Canada.

Hon. Mr. Chevrier: I think Mr. Pouliot's question included both freight and passengers.

Mr. Vaughan: There were occasional United Fruit boats which came into Saint John with bananas. I think they had a boat at irregular intervals come in there, but Mr. Pouliot is quite correct when he says we were the only company giving a regularly scheduled service.

Hon. Mr. Chevrier: What I am trying to bring to the attention of the committee is that there were other companies who were operating service to the Islands besides the Canadian National West Indies Steamships. For instance, the United Fruit people and the Saguenay boats were operating in that territory as well, were they not?

Mr. VAUGHAN: Oh yes, that is quite true. We did not have the field to ourselves.

Mr. MUTCH: The only point of that is that you achieved the results which you achieved in the face of regular competition.

Mr. POULIOT: Exactly.

Mr. PICARD: I think everybody is trying to be nice to the company.

Mr. POULIOT: They deserve it.

Mr. NICHOLSON: Following along Mr. Pouliot's argument I should like to know why the management did not make more effective representations to the government of the day in 1929, 1930 and 1931, and why these very large deficits were allowed to accumulate? In view of the fact that subsidies had been paid for the service I think there was a very good argument for them. Why was is not possible to have some adjustment made year by year rather than allowing the $5,000,000 total to accumulate by the end of 1934? Is it not possible at this stage to reach an adjustment? I think Mr. Pouliot's argument is very reasonable, that the company has been placed in an unreasonable position and some adjustment should be made rather than to carry on the balance sheet these very large liabilities as a result of failure to pay a subsidy in the early operations of the service.

Mr. VAUGHAN: I could not say what representations were made in the early days by Sir Henry Thornton when the service was started. I do know this that since I have been president in the last five years we have made representations. We were successful in getting the interest rate reduced in 1943 from 5 per cent to 2½ per cent, but that is as far as we have been able to go.

Mr. NICHOLSON: How far have you gone? Can you give the committee any additional information as to what you have done with regard to getting some adjustment on this score?

Mr. VAUGHAN: We have made representations to the Department of Finance, but that is all we can do.

Mr. MUTCH: The fact is though that you have been able to carry the load and pay a profit?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: If the government had had to pay a subsidy on the second route it would have been over a million dollars a year on the two.

Mr. VAUGHAN: Yes. Never in any year even in the early stages did we lose more money than the government would have had to pay in subsidies.

Mr. MUTCH: To a private company?

Mr. VAUGHAN: To a private company.

Mr. POULIOT: Mr. Minister, may I ask you if there are still any more 10,000 ton boats available?

Hon. Mr. CHEVRIER: No, they have all been sold, at least, those that were under the jurisdiction of Park Steamships. I am informed by the Department of Reconstruction that they have all been sold with the exception of those three that Canadian National West Indies Steamships have purchased.

Mr. POULIOT: Do you intend to replace the three Lady ships that wer sunk?

Mr. VAUGHAN: We do not intend to replace them in kind. This budget indicates that we are taking over from War Assets three diesel-driven boats that have a small passenger carrying capacity, but we do not intend at the present time or in the immediate future to replace the three Lady boats which have been lost.

Mr. POULIOT: Do you intend to charter new boats?

Mr. VAUGHAN: We are chartering at the present time certain boats from the Park Steamship Company, but beyond those we do not intend to purchase any more.

Mr. POULIOT: If you build other ships will you build them in Canada?

Mr. VAUGHAN: That is a hypothetical question, because we have not got it in mind to build any ships at the present time.

Mr. POULIOT: But if you do will you ask for tenders in Canada?

Mr. VAUGHAN: If we were going to build new ships we would certainly ask Canadian builders to tender, and give them an opportunity to figure with us.

Mr. REID: That would suit us in British Columbia, because we can produce the ships cheaper there.

Hon. Mr. CHEVRIER: Is that not what you propose doing with reference to your west coast steamships?

Mr. VAUGHAN: Yes.

Hon. Mr. CHEVRIER: I presume you would not follow any other policy.

Mr. VAUGHAN: One of these diesel boats is being built at the coast, Mr. Reid.

Mr. PICARD: That ties in with my previous question. You state here that the line should not be allowed to become a war casualty. I was wondering whether along the same lines that Mr. Pouliot has just mentioned you intend at some time to make further capital expenditures to bring the company back to its pre-war condition of five passenger and freight ships plus your cargo ships?

Mr. VAUGHAN: Unless Canada should assume a further obligation in connection with treaties between Canada and the West Indies it would only be our intention to replace the existing boats plus the boats covered in the budget by such other vessels as might be required to take the place of boats that we might lose or sell on account of obsolescence.

Mr. PICARD: You do not intend to go back to the same scale of operation with five passenger carrying ships?

Mr. VAUGHAN: We have not in mind at all to supplement those three passenger boats that we lost.

Mr. MUTCH: It would be fair to say that you are directing the emphasis in your reconstruction program to freight carrying rather than to passenger carrying?

Mr. VAUGHAN: Yes.

Mr. MUTCH: I assume that would be influenced to some degree by the fact that passenger traffic to the area is primarily a luxury traffic, and you are probably figuring on possible air competition as to the passenger traffic? Is that correct?

Mr. VAUGHAN: That is one reason, and besides that there is no obligation now. There is no trade agreement requiring Canada to provide passenger facilities. We will have some passenger accommodation. We will in due course get back Lady Rodney and Lady Nelson. It will take three or four months to recondition those boats before they go in that service. Then the three diesel boats will have accommodation for twelve passengers each. Then we have two other vessels which have accommodation for twenty passengers each, so that we will still be able to carry some passengers.

Mr. MUTCH: There is more money in freight?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: Will they be any faster than the Lady boats?

Mr. VAUGHAN: I think that those three diesel boats will be a little faster than the Lady boats.

The ACTING CHAIRMAN: They took about fourteen days for the round trip?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: How many knots are the new ships?

Mr. VAUGHAN: The new ships will have a sea speed, cruising speed, of about 15 knots, but can be pushed to 16 or 17 knots.

Mr. JACKMAN: Some of these new United Fruit ships are 19, are they not?

Mr. VAUGHAN: Yes, they are.

Mr. REID: In leasing some of these Park steamships did you take over the crews as well when you took them over under agreement and operated them? Did you take them over with the crews that were on the Park Steamships at the time?

Mr. VAUGHAN: If we took boats over from the Park Steamships which we had not been operating before, we put our crews on them.

Mr. PICARD: When you say that you do not intend to replace the Lady ships that were lost do you mean that the tourist traffic is not so profitable that it is worth while to look to that right now?

Mr. VAUGHAN: One of the principal reasons is that at the present time owing to the tremendous cost of building passenger boats we would not feel justified in asking the government to put up the money.

Mr. POULIOT: Mr. Vaughan, will you please tell us what subsidiary companies there are of the Canadian National West Indies Steamships?

Mr. VAUGHAN: Canadian National West Indies Steamships so far as I know has not got any subsidiary companies.

Mr. POULIOT: And on the Pacific coast, what have you?

Mr. VAUGHAN: We are only operating one coasting vessel at the present time. That does not come under the Canadian National West Indies Steamships. That comes under our western operations.

Mr. POULIOT: But you have one ship; is it the Prince George or the Prince Robert?

Mr. VAUGHAN: The Prince Rupert.

Mr. POULIOT: What is the name of that ship?

Mr. VAUGHAN: Prince Rupert.

Mr. POULIOT: It travels from Vancouver to Prince Rupert?

Mr. VAUGHAN: It travels between Vancouver to Prince Rupert, and in the summer time to Skagway, Alaska.

Mr. POULIOT: And is it under the Canadian National West Indies Steamships?

Mr. VAUGHAN: No, sir.

Mr. POULIOT: It is directly under you?

Mr. VAUGHAN: Directly under the Canadian National Railways.

Mr. POULIOT: And is the West Indies service under the Canadian National West Indies Steamships under you?

Mr. VAUGHAN: Well, it is operated by the Canadian National West Indies Steamships, but it comes under our jurisdiction. We have a separate organization to handle it. I happen to be the president.

Mr. POULIOT: Why is there a separate organization?

Mr. VAUGHAN: Because Canadian National Railways does not own the stock of the Canadian National West Indies Steamships. The stock of the

Canadian National West Indies Steamships is owned entirely by the Dominion of Canada.

Mr. Hazen: How many directors has the Canadian National West Indies Steamships?

Mr. Jackman: It is set out in the front of the book.

Mr. Vaughan: It is in the front of the report. The directors are practically the same as the Canadian National Railways directors.

Mr. Hazen: They are the same directors?

Mr. Vaughan: Yes.

Mr. Hazen: How often do the directors of the Canadian National West Indies Steamships meet?

Mr. Vaughan: Oh, they usually meet at the same time or following the meeting of the Canadian National Railways directors.

Mr. Hazen: How often do you have a meeting of the Canadian National directors?

Mr. Vaughan: We have regular monthly meetings and occasionally we call special meetings.

Mr. Hazen: Where are these regular monthly meetings held?

Mr. Vaughan: They are held in our board room in Montreal.

Mr. Hazen: Are they usually attended by all directors?

Mr. Vaughan: Yes, sir. It is very seldom that a director is absent from one of these meetings.

Mr. Hazen: What are these directors paid? Are the directors of the Canadian National Railways paid certain fees and the directors of the Canadian National West Indies Steamships paid fees as well?

Mr. Vaughan: No. There is only one director fee paid and that is to the directors of the Canadian National Railways. The directors of the Canadian National West Indies Steamships or Trans-Canada Air Lines do not get any fees.

Mr. Hazen: Are the directors of the Trans-Canada Air Lines the same seven men or are they different?

Mr. Vaughan: No, there are only some of the directors of the Canadian National Railways who are directors of the Trans-Canada Air Lines.

Mr. Hazen: What are the directors of the Canadian National Railways paid a year?

Mr. Vaughan: They are paid $5,000 per annum.

Mr. Nicholson: If we may return to the matter raised by Mr. Pouliot, I think we have all followed him very closely, and it would appear to me to be a conservative estimate that the operation of this company has saved the taxpayers at least $11,037,000.

Hon. Mr. Chevrier: Mr. Nicholson, I think in fairness you should add that is only on the assumption that the government would have paid a subsidy of $534,000, back in 1929. There is no assurance that the government would have accepted the tender of the Royal Mail Steam Packet Company.

Mr. Nicholson: The fact is that the government did pay a subsidy.

Mr. Pouliot: It is not a reflection against the government.

Hon. Mr. Chevrier: No, but the argument is based only on that assumption, and I think that should be made clear.

Mr. Vaughan: I think it is fair to say that this government had a definite obligation under the Canada-West Indies trade agreement to provide this service. Somebody had to provide it, because they had entered into an agreement

with the various West Indies islands. They actually did not accept the tender of the Royal Mail Steam Packet Company because apparently they came to the conclusion that the Canadian National West Indies Steamships could perform the service cheaper and to better advantage. As a matter of fact, the tender of the Royal Mail Steam Packet Company did not by any means provide for the service that was required under the Canada-West Indies trade agreement.

Hon. Mr. CHEVRIER: The point I am making is that in 1929, when tenders were asked for, there was no assurance that the government would have paid that amount. Tenders are called for every day and when they are considered they are not always accepted.

Mr. MUTCH: Is it not fair to say it was the best tender offered?

Mr. VAUGHAN: It was the only tender.

Hon. Mr. CHEVRIER: I do not know what the position was in 1929 nor have I any way of knowing at this moment, but I presume that was the position.

Mr. NICHOLSON: If I may be permitted to proceed a little further, I think it is recognized that it is important that this trade agreement should be honoured and that some service should be given. In the early days a subsidy was paid, and if there was to be continued trade with the West Indies some subsidy apparently would have had to be paid to some company. The government of the day very wisely decided that rather than pay such large subsidies to a privately owned corporation something else should be done, and as a result of what was done, according to Mr. Pouliot's estimate, we have saved $11,037,000. That, of course, assumes that the same subsidy would have been paid, but I think we can make that assumption.

Mr. VAUGHAN: I think that perhaps I should make this clear. Before this service was turned over to Canadian National West Indies Steamships for operation the government had for many years paid a subsidy to the Royal Mail Steam Packet Company and I think to the Pickford and Black Company. The Royal Mail had four small boats, and I think they got well over $300,000 a year for many years for operating that service, and Pickford and Black also had a subsidy at one time so that this subsidy was not anything new.

Mr. NICHOLSON: The point that I want to make is that we now have on the balance sheet, under liabilities, an item of $5,059,000 which, in my opinion, should not appear there. I should like to move, if Mr. Pouliot will second it—

Mr. POULIOT: Yes.

Mr. NICHOLSON: —that this committee recommend that the management make representations to the government to have this item written off the balance sheet.

Hon. Mr. CHEVRIER: Why should that amount be written off the balance sheet?

Mr. NICHOLSON: Because I think that—

Hon. Mr. CHEVRIER: Any more than it should be written off in the Canadian National Railways accounts.

Mr. POULIOT: It should be written off in both places.

Mr. NICHOLSON: It so happens that we are discussing the report of the Canadian National West Indies Steamships. Here is an item which, in my opinion, should not appear in this balance sheet. I think we should recognize that and try to right it.

Mr. PICARD: I have never seen so many people at one time trying to be nice.

Mr. VAUGHAN: I would submit that perhaps it is a matter that the committee would like to discuss amongst themselves when we are not here. We would be very glad to have that done.

Mr. POULIOT: You see we are sympathetic to the company.

Mr. MUTCH: Speaking to the motion, it is apparent that we are having a competition in expressing appreciation of what the committee believes to be the very fine record of the company. As far as the resolution is concerned I submit there is no harm in the members of this committee co-ordinating all their complimentary expressions in a statement to the president that he should continue his negotiations with the minister, because that is what it means. As the president of the company he is in the position, I should think, of always being under an obligation to strive to the best of his ability to make his company appear in the best possible light. It does not commit the directors to doing anything they have not been doing before, and it certainly does not put any compulsion on the government to listen any more attentively than they have been listening before.

If I interpret your remarks correctly it is mainly an opportunity for the committee to say that in their view the company, having achieved a certain standard of service and returns, should be put in the best possible light in their financial structure. The actual situation is that under the load of this $5,000,000 the company under extremely difficult circumstances has paid the interest on the loan and shown a profit. It is not a question of their survival. It is a matter of bookkeeping and is of no financial significance.

Mr. POULIOT: Mr. Vaughan, I should like to ask you another question, and I should like to have it clearly stated. The ships that belong to the government-owned company are mentioned in the record as Canadian National Steamships?

Mr. VAUGHAN: Yes.

Mr. POULIOT: What are the other ships that belong to the company controlled by the Canadian National Railways besides the Prince Rupert?

Mr. VAUGHAN: We do not operate any ocean going ships other than barges and tugs.

Mr. POULIOT: They are just for the river service?

Mr. VAUGHAN: Yes.

Mr. POULIOT: Inland service?

Mr. VAUGHAN: Yes, if service between Vancouver Island and the mainland may be called inland service. We have barges and tugs operating in that service.

Mr. POULIOT: They are all freight vessels?

Mr. VAUGHAN: Yes.

Mr. POULIOT: No passengers?

Mr. VAUGHAN: No passengers at all. The only boat we have carrying passengers on the Pacific coast at the present time is the Prince Rupert.

Mr. NICHOLSON: I believe there is a motion.

Mr. HARRIS: I am going to speak to the motion. It is one we discussed in this committee last year in some detail, and I should like to have time to think over how I should vote on it. It is 1 o'clock, and I move that we adjourn.

The ACTING CHAIRMAN: Gentlemen, there is a motion before the committee.

Mr. MUTCH: Before you put that, would you read the motion again slowly.

The ACTING CHAIRMAN: Mr. Nicholson moved, seconded by Mr. Pouliot, that the government give consideration to the debt that is owed to them now and has been collected by the government from the Canadian National West Indies Steamships.

Mr. NICHOLSON: No my motion was: That this committee recommend that the management make representations to the government with a view to having this deficit item wiped off the balance sheet.

Mr. MUTCH: There is no recommendation to the government at all.

The ACTING CHAIRMAN: All in favor of that motion?

Hon. Mr. CHEVRIER: Mr. Harris has moved the adjournment.

Mr. HARRIS: I move that we adjourn.

The ACTING CHAIRMAN: All right.

The committee adjourned at 1.00 o'clock p.m. to resume at 4 o'clock p.m.

The committee resumed at 4.20 o'clock p.m.

The ACTING CHAIRMAN: Gentlemen, order. Are there any more questions you would like to ask?

Hon. Mr. CHEVRIER: Before we adjourned at one o'clock we were discussing the question of $5,059,000 loans for deficits to the steamships from 1929 to 1934, and there was a motion made with reference to it. I should like to say just one word about the matter. I appreciate, of course, the co-operation of the committee and its willingness to come to the assistance of the Canadian National Steamships, which has done such a fine job and whose report has been outstanding, and the government is anxious to assist it in every way possible. The motion that was made, I am sure, was made with the intention of assisting the steamships, but it involves a question of principle in which I think I should say a word. The wiping out of the deficit here is an important matter, for these reasons: that there are other corporate bodies, three or four corporations, which are in the same position. I can think of representations that have been made to me by the people in Vancouver with reference to the wiping out of the debt on the harbour debentures. There is a question which involves a matter of principle. The Department of Finance has not seen fit to consider wiping it out. The same position obtains in the City of Montreal where the government is now entering suit against the city for a large sum of money, and if this deficit were wiped out the City of Montreal would, I think, be able to say then: if it was done for the steamships why should it not be done for and why should we be sued. I just wanted to make that statement because I thought it should be made at this juncture.

Then there are one or two other things involved in connection with the motion. I do not think it was the intention of the mover that the government should be asked to wipe out the deficit, although that might have been the inference from the discussion that was carried on this morning; because, if that is the inference, then I have to point out that we have no such powers. Section 54 of the British North America Act gives certain powers to the Crown, and as I understand it no member of the House of Commons or of one of the committees would have the right to adopt or pass any vote, resolution, address, or bill having to do with the appropriation of any part of the public revenues. And I think the powers of this committee also are fairly clear, in that there is a saving clause to the effect that the powers of the committee of supply are exempted from the order of reference to this committee on railways and shipping.

I think the steamships are well advised in seeking to make representations that their position be bettered. I see no objection to this committee acting on a resolution of that kind, but I think I should draw to the attention of the committee the principle involved here. It would be very embarrassing to the Minister of Finance with reference to the other bodies with which he has to deal and which are indebted to the government.

Mr. NICHOLSON: Our discussion here was confined to one specific problem, and I do not see any reason why, if an injustice has been done in a matter of this kind, the case should not be considered on its merits. There is no point in

going over ground that has already been covered in discussion. I think this committee is quite within its rights in making a recommendation to the management as to how operations might be carried on in the public interest. And, if my resolution was not worded correctly, perhaps I had better write it out.

Hon. Mr. CHEVRIER: I was not addressing myself to your resolution exclusively, I was addressing myself to the inference that could be derived from the discussion of this matter. If your resolution has to do with a recommendation to the management, there could be no objection to that.

Mr. NICHOLSON: That was my recommendation. I didn't have it written out, but when I started the discussion we had this morning I thought that I, as a member of the committee, would be justified in recommending that the management press for a change in their financial set-up, so that this item would not continue to appear as a liability. I think that is the opinion we got from the discussion here this morning. I was merely asking that with respect to the future they should be permitted to operate without this $5,059,000 of a liability which I think should not be there.

Mr. REID: I am somewhat inclined to agree with the motion and the statement made by Mr. Nicholson, still as a member of the committee I must make this further statement: that I think the committee unless it has full information as to the circumstances at the time the $5,059,000 was offered and go into that matter—they are not competent to know whether there would be a saving or not; because, let us visualize conditions as they could have been. A firm in those days tendering for something might have realized that they were the only firm tendering and they might have thought, here is a place we could pad a little bit—and contracts were padded in the days gone by—and that might have been a thought in their mind when they asked for this subsidy of $582,000, which I think was wisely turned down. I think it is unfair for anyone to come along at this time and say that that is the amount the government would have had to pay had they not had this steamship service. I do not think the statement should be made that there was a saving of $12,800,000 just on that account.

Mr. VAUGHAN: I think the statment I made explained the situation very fully. We have not asked this committee to do anything about it at all. We simply have placed the position before the committee, because in the past there has been a lot of unfair criticism about the Canadian National (West Indies) Steamships operating at a loss in the early stages, while no consideration was ever paid to the amount of subsidy which would have had to have been paid had the steamship service not been organized. I think I should point out, however, that the Canadian National Steamships are in a different position from the Canadian National Railways. We do not own its stock, the government owns it.

Mr. HARRIS: That is what I was coming to, Mr. Vaughan; but before I discuss that I would like the chairman to read the resolution as he has it before him.

Hon. Mr. CHEVRIER: We will have to ask the reporter for that to be done.

Mr. REID: Mr. Nicholson now has it written out.

Mr. HAZEN: May I point out, while the resolution is being written out, that at the bottom of the consolidated balance sheet we have the certificate of the auditors which says:

> We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1945, and subject to our report to parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct

> view of the affairs of the Steamships as at the 31st December, 1945, and that the relative Income and Profit and Loss Accounts, for the year ended the 31st December, 1945, are correctly stated.

I am prepared to accept the statement of the auditors that this presents a true and correct view of the affairs of the steamship company. I feel that they know a great deal more than we do after the cursory discussions we have had here to-day. In view of their statement that that is a true and correct view of the affairs of the company I do not think any effort should be made to delete from the liability side of the balance sheet the Dominion of Canada advances of $5,059,960.94. I think it should remain as it is, it is not a matter of accounting, and unless we have some more expert advice it should stay.

Mr. NICHOLSON: I was not casting any reflection on the auditing or on the accounting.

The ACTING CHAIRMAN: Would you so move, Mr. Hazen?

Mr. HAZEN: I would so move, Mr. Chairman.

Mr. NICHOLSON: I do not know that another motion would be in order until this one has been disposed of.

Hon. Mr. CHEVRIER: As I understand it, you have made a motion and Mr. Hazen has made an amendment to it; his amendment is the adoption of the balance sheet as it stands.

Mr. NICHOLSON: Has he moved that as an amendment?

Hon. Mr. CHEVRIER: He has moved that as an amendment to your motion.

Mr. POULIOT: Why not put it the other way and have Mr. Nicholson's revised motion appear as a sub-amendment. If that does not carry the report will be adopted.

Hon. Mr. CHEVRIER: I have no objection to that. Mr. Nicholson is writing his motion out. Will he hand it to the chairman?

Mr. NICHOLSON: I understood you had accepted an amendment.

Hon. Mr. CHEVRIER: Mr. Pouliot suggested that we take yours as an amendment, and if it is defeated the other carries.

Mr. JACKMAN: Before we take a vote on that, I am not very clear in my mind as to all the figures that have been given out. I was not able to follow them as well as I would have liked to have this morning. This is the railway which is operating this company for the government asking that the Dominion of Canada advances amounting to $5,059,000 be eliminated; is it that, or is it the profit and loss deficit?

Hon. Mr. CHEVRIER: Mr. Vaughan says he is not asking for anything out of the discussion which arose this morning. Mr. Nicholson made a motion that it be eliminated from the balance sheet.

Mr. JACKMAN: Which amount?

Hon. Mr. CHEVRIER: The $5,059,000.

Mr. VAUGHAN: In the discussion this morning we tried to point out as best we could the exact position of the Canadian National (West Indies) Steamships, and my point was that I did not think it was fair in the first place that these charges should be debited against the Canadian National (West Indies) Steamships. Now, there they are, and I have done nothing more than point out the situation.

Mr. JACKMAN: Then what you want to have written off is the amount of advances to cover operating deficits.

Hon. Mr. CHEVRIER: Advances to cover deficits amounting to $5,059,000; is that not right, Mr. Cooper?

Mr. COOPER: Yes.

Mr. JACKMAN: Then the answer is that if we take the one out the other disappears.

Mr. VAUGHAN: As far as the auditors' statement is concerned, that statement is perfectly correct. I do not know whether this committee would want to ask the auditor whether he agrees with our views or not. I think he is here.

Mr. POULIOT: I do not want to interrupt anybody, but I do not question what has been done in the past. We are now faced with the future and we have to make the best possible of the past so that the future is just as encouraging as possible. That is my stand in the matter. I do not question the accounts or the accounting at all; from their viewpoint, all is perfectly correct. That is not what I asked. What I wanted to stress, what I wanted to point out, is the fact that because the Canadian National Steamships did not have the same number of Lady ships their sources of revenue are not the same as before, and they have to resume trade that has been disturbed by the war, and they will have difficulties to face. What they will do is in the interest of promoting trade for this country.

Hon. Mr. CHEVRIER: I think you will find, Mr. Pouliot, that the president is entirely in agreement with you on that. I think you will find, too, that the government in making available to the steamships the three Parks' vessels, which it did at half cost, is trying to assist them in every way it can. I am anxious to see passenger travel operated if it can be found possible, but I do not think at this time it would be possible because of the fact that the agreement has not yet been renewed. When it will be renewed, I do not know; but if it is renewed then I think is the time to consider passenger service.

Mr. VAUGHAN: We have not suggested that any more passenger boats be bought at this time.

Mr. POULIOT: You have made a statement, Mr. Vaughan; but you have drawn no conclusions, you have left that very discreetly to the committee.

Mr. VAUGHAN: Exactly.

Mr. POULIOT: You make no suggestions whatever.

Mr. VAUGHAN: I made no suggestions at all, simply drew the facts to the attention of the committee.

Mr. POULIOT: I think you have been very discreet and we appreciate it.

Mr. JACKMAN: Mr. Chairman, the point Mr. Vaughan brings up is exactly what was adopted in 1937 in connection with the accounts of the Canadian National Railways, if they had a deficit on interest account it was to be forgiven them, it was not treated as a charge against the railways. I take it that what he is drawing attention to now is that an adjustment should be made in the accounts of the Canadian National (West Indies) Steamships in the same way so that these deficits would not have to be carried in the books. That is the same thing, that is what the point amounts to, is it not?

Mr. VAUGHAN: That is the same thing exactly.

Mr. JACKMAN: I can see that that is a most difficult situation, leaving aside all question of private or public ownership—and in those cases my view is well known—but I think that in previous committees I have suggested that this profit and loss deficit of $4,963,000, which corresponds to the Dominion of Canada advances of $5,059,000 is an illusory thing, and we are only fooling ourselves as owners of this line. The railways are out of it. The Dominion of Canada is the owner of this line and as such they are accepting for their own misinformation each year a balance sheet which, while fully reflecting the accounting figures—and that is no reflection on the auditors, because they are reporting what the books of the company show, and that is all their

certificate represents. But there is no asset in this company to cover this profit and loss deficit of $4,963,000; and it has largely arisen, according to the evidence which has been given to us in this memorandum, from the capitalization of the deficit in the early years of the operation of the line, plus the accumulated interest on those deficits. I think the thing is most unsound from the ordinary corporation point of view, and I believe the situation is quite different from the Canadian National. We are asking exactly what we did in the Canadian National when the C.N. had losses from 1937 on—operating losses—and had not sufficient income to pay interest on its indebtedness to the government. It was forgiven that interest; it was not accumulated, much less was interest on interest accumulated just to fool ourselves—and that is all we have been doing in these lines for many years, and now that has grown to a very substantial amount. And I think that if we are to have a true picture of this line we should seriously consider recommending to the government that they give consideration to eliminating the profit and loss deficit, or the Dominion of Canada advances—which amounts to the same thing, do they not, Mr. Cooper?

Mr. COOPER: Substantially, yes.

Mr. JACKMAN: Just going on from year to year like this is perfectly unsound. I recall in the Home Bank case, where the bank failed, they had loans down in Florida at high rates of interest and they had interest outstanding which they had not received, and they took the interest on the interest and the American exchange, and that piled up a big asset which only served to fool the depositors and the stockholders, too. That is what we are doing in this case. I do not think that is a debt as far as the lines are concerned, yet here we are treating it quite differently from the way we treated the deficits of the Canadian National in the years since 1937.

Hon. Mr. CHEVRIER: I see no difference at all.

Mr. JACKMAN: All they are asking to have done is what you are doing in respect to the Canadian National Railways at the present time; if they cannot pay interest to the government, that interest is not accumulated, much less is it charged on interest which is not paid. Is not that the fact? That is a question of fact. That was one of the specific recommendations of the 1937 Act.

Mr. NICHOLSON: Do they not bring in a bill each year to pay the deficit, clear them up every year rather than accumulate them in the form of deficits?

Mr. VAUGHAN: If there were a deficit shown it would have to be taken care of in the form of a bill, or loan of some kind.

Mr. NICHOLSON: Through a contribution of some kind?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: That should be disposed of in the same way, instead of carrying it on our books for all time to come. We ought to have it cleared up.

Mr. VAUGHAN: This has provoked a discussion I did not intend. When I brought it up I was simply giving facts to the committee to indicate that the Canadian National Steamships had not been the white elephant some people represent it to have been.

The ACTING CHAIRMAN: Gentlemen, it has been moved by Mr. Nicholson, seconded by Mr. Pouliot, that this committee recommend to the management of Canadian National (West Indies) Steamships, Limited, that they make representations to the dominion government to have absorbed $5,059,960, Dominion of Canada advances appearing in the liability side of the Consolidated Balance Sheet for the year ending December 31, 1945.

Mr. HARRIS: And the amendment to that.

Mr. Hazen: I move an amendment: That the committee adopt the consolidated balance sheet of the Canadian National West Indies Steamships Limited as shown on the 1945 report of that company.

Mr. Nicholson: Is that an amendment?

The Acting Chairman: That is an amendment. All those in favour of the amendment please signify. Eight. I declare the amendment carried.

Mr. Pouliot: Now, Mr. Vaughan, will you please tell me at what ports of call the ships of the Canadian National West Indies Steamships Limited stop?

Mr. Vaughan: I do not think I can do better than this. I have here a statement showing where the boats were on May 11th. The Sutherland Park was due at Halifax on May 13th. The Maisonneuve Park was due at St. Kitts on May 17th; the Cathcart at Bermuda on May 10th; the Lorne Park at Guadeloupe on May 10th; the Chomedy at Dominica on May 11th; the Cartier Park at Demerara on May 11th; the Canadian Observer sailed from Kingston on May 5th; the Colborne arrived at Barbados on May 5th and sailed from Barbados on May 10th and arrived at Dominica on May 11th. The Cavelier sailed from Antilla on May 8th. The Liscomb Park arrived at Halifax on May 5th. The Lady Nelson arrived at Halifax on May 7th. The Lansdowne Park sailed for Vera Cruz on May 14th. The Dalwarnic sailed for St. John's Nfld., on May 8th. The Lady Rodney arrived at Reykjavik, Iceland on May 5th. The Rockliffe Park was at St. John's on May 11th. The Connector was at Kingston on May 13th.

Mr. Pouliot: Now, will you please tell us who are your agents at each place?

Mr. Vaughan: I could get that information for you. I could not give the names now. We have different agents at almost every place. I do not remember all the names.

Mr. Pouliot: But they are like maritime brokers. They act for several companies at the same time?

Mr. Vaughan: In some cases they do and in others they do not. They are all well recognized steamship men in the various places referred to.

Mr. Pouliot: Oh, yes, but would it be agreeable to have that list added to the report of today?

Mr. Vaughan: We will be glad to file it.

Mr. Pouliot: Are they natives of these various places or Canadians who have been sent to each port?

Mr. Vaughan: I think most of them originally were British firms. Take in Demarara. There is a British firm there. In Kingston, Jamaica, the firm is Johnson & Company. They are local people. In fact, Johnson is a coloured man, and a very able man. He has white partners.

Mr. Pouliot: That is not a question, as long as the trade is good, but do they do some canvassing for the company?

Mr. Vaughan: Oh yes, they are very active.

Mr. Jackman: On a commission basis?

Mr. Vaughan: On a commission basis, yes.

Mr. Pouliot: Do some of your men in the line speak Spanish?

Mr. Vaughan: I do not think we have any who speak Spanish, except our own agents at these various places.

Mr. Pouliot: You have one agent in Mexico?

Mr. Vaughan: Yes.

Mr. Pouliot: But I mean do you have inspectors on the line who speak Spanish?

Mr. VAUGHAN: No, we have not.

Mr. POULIOT: Do you not think it would be a good suggestion for you to have a man who is well acquainted with the business of the company and who speaks Spanish, English and French fluently to visit all these ports and report to you?

Mr. VAUGHAN: Our freight traffic manager in Montreal makes frequent trips to these various places.

Mr. POULIOT: Does he speak Spanish?

Mr. VAUGHAN: I couldn't tell you that. He is a French Canadian. He speaks French very well and he may speak Spanish. I could not tell you that.

Mr. POULIOT: If he does not speak Spanish do you not think that it would be a good thing that he should be accompanied by someone who has spirit and initiative and who speaks Spanish?

Mr. VAUGHAN: We do not go to many points where Spanish is required. Most of these places we go to are British possessions. Occasionally we do go to some places like Cuba or Mexico.

Mr. POULIOT: Vera Cruz?

Mr. VAUGHAN: Yes, that service has just been started.

Mr. POULIOT: Two trips?

Mr. VAUGHAN: Yes.

Mr. POULIOT: A direct service to Vera Cruz?

Mr. VAUGHAN: Direct service.

The ACTING CHAIRMAN: Will you give us the budget of the Canadian National West Indies Steamships?

Mr. HAZEN: Do you anticipate that the airplane will interfere much with passenger service on the steamships? Have you ever made any estimate about that?

Mr. VAUGHAN: We have given that some consideration. It is a very difficult thing to estimate. Some people think the airplane business will be complementary to the steamship business, They think that the airplane will create new business rather than take away from the existing business. There is no doubt that people who want to go some place in a hurry will travel by air, but we do not think it will interfere with our business very much.

Mr. HAZEN: If I may just go back for a minute. You have no doubt given some consideration to that question on the railways. Do you feel that it is going to affect your railways very much?

Mr. VAUGHAN: We believe it will affect our railways ultimately, particularly in what we call the long haul rear end business. That is the sleeping car business. I think as time goes on and more airplanes are in operation our business to points like Vancouver will be affected.

Mr. HAZEN: You have never made any attempt to work it out on a percentage basis? Have you ever made any estimate as to what extent it will be affected?

Mr. VAUGHAN: It would be difficult to do that because both the railways and the airplanes have been full during the war period, but that is something that probably can be determined in the next five years.

Mr. REID: I have two questions regarding ships. Have you considered on the run to the West Indies the use of a larger cargo ship instead of the 4,700 ton ships? I am thinking from an economical point of view. Have you considered putting on larger ships instead of keeping on with your 3,500 to 4,700 ton ships?

Mr. VAUGHAN: These boats that are now on order and will be delivered this fall are 7,500 ton deadweight ships. They are larger boats. We have to have some of the smaller boats because many of these ports have not a very great depth of water, and the facilities are not very good for handling large vessels. Then, too, sometimes we would not get enough cargo to operate a 10,000-ton boat. Our service would not be so frequent.

Mr. REID: On a point of information, why is it that on a lot of these vessels listed with us this morning in some instances the gross tonnage is heavier or greater than the deadweight tonnage whilst in other ships the deadweight tonnage is greater than the gross tonnage?

Hon. Mr. CHEVRIER: Where is that?

Mr. REID: If you look at ships and weights.

Mr. VAUGHAN: As you know, there is a different method of computing gross tonnage and deadweight tonnage. They are two entirely different things.

Mr. BOURGET: What is the difference between gross tonnage and deadweight tonnage?

Mr. VAUGHAN: Deadweight really means cargo weight that can be carried including storage and fuel.

The ACTING CHAIRMAN: Can we proceed now with the budget?

Mr. VAUGHAN: There is gross tonnage and net tonnage and deadweight tonnage and displacement tonnage. They are all calculated on a different basis.

Mr. REID: It is interesting because there are ships that must be more economical to run because some ships that have less gross tonnage are carrying more deadweight tonnage.

Mr. VAUGHAN: Yes.

Mr. REID: So those ships that carry more deadweight tonnage must be more economical because the same size of crew would probably be put on each of the ships.

Mr. VAUGHAN: Of course, there is this about it, that all these boats are not ideal for trade. If we were going out to buy or build new boats we would probably build boats of a different type to-day. These boats were the ones that were available at the time and they were put into service.

Mr. REID: That is why I think it might be advisable not to get loaded up with too many Park steamships.

Mr. VAUGHAN: We have bought only one Park steamship and we have chartered three of them on the bare boat basis, so we are not loaded up with them.

Mr. REID: They were a splendid war vessel and did a splendid job.

Mr. VAUGHAN: These Park vessels have fitted in very well for some of our West Indies business.

Mr. POULIOT: What was your proportion of trade during the war compared to pre-war?

Mr. VAUGHAN: Oh, we had more trade during the war. We had more boats in service preceding the end of the war.

Mr. POULIOT: You carried troops also?

Mr. VAUGHAN: We carried troops on the Lady boats. Someone asked about the budget for the Canadian National West Indies Steamships. It is on page 8.

Hon. Mr. CHEVRIER: Page 8 of the Canadian National Railways budget, the last page. Will you deal with that, Mr. Vaughan?

Mr. VAUGHAN: Yes. We show there in our operating budget that we expect to have a net operating income of $887,000. We are budgeting for gross revenue of $3,677,000, operating expenses of $2,790,000 and a net of $887,000,

and after all the various charges, interest due the public and government interest are taken into account we budget for a surplus of $416,000 in 1946.

Mr. Reid: Was the statement not made that interest charges had been reduced from 5 to $2\frac{1}{2}$ per cent?

Mr. Vaughan: That is correct. Down below there is the capital budget. There is the purchase of these three diesel vessels we have been speaking about at a total cost of $3,750,000, and the purchase of one Park vessel at a cost of $450,000, or a total for new vessels of $4,200,000. There is a note to the effect that the funds for the purchase of these four vessels will be taken from our vessel replacement fund.

Mr. Reid: What size vessels are the three diesel-driven cargo vessels?

Hon. Mr. Chevrier: 7,500 tons.

Mr. Vaughan: They are mentioned in the report. I have a description of them here. The length of these boats is 436 feet, breadth 59 feet, depth 36 feet, load draft 25 feet, sea speed 15 knots. They have a cargo capacity of 371,000 cubic feet and a refrigerator capacity of 15,400, a fuel oil capacity of 890 tons, a fresh water capacity of 218 tons and salt water ballast of 753 tons. They have passenger accommodation for twelve passengers with five two-berth rooms and two single-berth rooms fitted with showers and toilets in each room. The cargo winches and auxiliaries will be electrically operated, and they will be first-class boats in every respect.

Mr. Hazen: For whom were they being built in the first place?

Mr. Vaughan: They were not built for anybody in particular. Some time before the end of the war it was considered by the wartime shipbuilding that they ought to, if possible, order an improved type of cargo boat, so that these three vessels were ordered. We knew they were there and after some negotiations with the government they agreed to turn them over to us.

Mr. Hazen: What companies are building those?

Mr. Vaughan: There is one being built by Vickers in Montreal, one by the Davies Shipbuilding Company in Levis and I think one by the Burrard Company in Vancouver.

Mr. Bourget: They were new ships?

Mr. Vaughan: Yes, they are brand new ships. They are not completed, and they will not be finished until September.

Mr. Reid: I move that the report be adopted.

Hon. Mr. Chevrier: The report and the budget.

Mr. Reid: And the budget.

The Acting Chairman: It has been moved that the report and the budget be adopted. All in favor?

(Carried)

The Next item is the annual report of the Canadian National Railways Securities Trust for the year ended December 31, 1945.

Mr. Vaughan: I think I will ask Mr. Cooper to read that.

Mr. COOPER:

Ottawa, 18th March, 1946.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
OTTAWA.

Sir,

In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1945.

The book value of the capital stock of the Securities Trust has been increased during the year by $22,631,041.47, as shown hereunder:

Surplus earnings of the Canadian National Railway System for the year 1945	$24,756,130.00
Abandonment of St. Lin Subdivision between Mile 0.94 and Mile 11.10, and between Mile 15.75 and Mile 33.21 (27.62 miles)	*1,167,121.47*
Loss on retirement of rolling stock equipment	*957,967.06*
Net Gain credited to Proprietor's Equity	$22,631,041.47

Application was made by the Canadian National Railways for the release, for cancellation and cremation, of $160,680.00 Canadian Northern Manitoba Railway Company 4½ per cent First Mortgage Bond due June 30, 1930, and $486,666.66 Canadian Northern Saskatchewan Railway Company 4½ per cent First Mortgage Debenture Stock due December 19, 1943, held by the Securities Trust as part collateral in respect of indebtedness of the Canadian Northern Railway Company to the Dominion Government refunded by the Government under Chapter 24, 1917, and Chapter 11, 1918, in order that the underlying trust mortgages might be discharged. These matured securities constitute the total issued under the trust mortgages, which could not be discharged until the securities had been cancelled and cremated.

In support of the application, officers of the railway company gave opinions in regard to savings and other benefits (e.g. facilitating future legal amalgamation of constituent corporations) which would result from the discharge of the mortgages, and the trustees were satisfied that the advantages to the National Railways which would follow such action are more than sufficient to offset any possible improvement in the position of any securities of the National Railways in the hands of the public which might result therefrom. The trustees thereupon authorized, by resolution of August 1, 1945, the release of the above-mentioned securities to the Canadian National Railways, for cancellation and cremation, subject to the approval of the Governor in Council as required by Section 21 of the Canadian National Railways Capital Revision Act, 1937. Such approval was granted by order in council P.C. 6099 dated September 18, 1945, and the securities have been released, cancelled and cremated.

Pursuant to Chapter 8, 1945, an Act to amend the Canadian National Railways Capital Revision Act, 1937, the board of directors of the Canadian National Railways passed a resolution at a meeting held on January 18, 1946, naming Mr. R. C. Vaughan, Chairman of the Board of Directors and Mr. N. B. Walton, Executive Vice-President, as Trustees of the Securities Trust.

The trustees present herewith the balance sheet of the Securities Trust as at December 31, 1945.

W. C. CLARK,
For the Trustees.

Mr. POULIOT: If you will permit me, Mr. Cooper, will you please tell me what is the amount of outstanding securities and bonds of the Canadian National Railways, the Grand Trunk, etc., held in Canada and on the other hand what is held outside of Canada?

Mr. COOPER: The funded debt of the Canadian National Railways at December 31, 1945, amounted in all to $573,179,997. Of that amount, $155,090,022 is payable in Canadian Funds. $33,351,000 is payable in United States funds. $292,240,942 is payable three ways; that is, United States, Canadian and sterling. $64,136,000 is payable either in United States or Canadian. $28,362,032 is payable in sterling. In percentages, 27·06 is payable in Canadian; 67·99 is payable either in United States, Canadian or sterling, which means under present conditions that it is payable in United States funds; and 4·95 is payable in sterling.

Mr. POULIOT: What amount has been redeemed since the beginning of the war, or repatriated, if you wish to so describe it?

Mr. COOPER: The amount repatriated?

Mr. JACKMAN: You want to know who owns these things. He is just telling how it is paid. He does not understand your question, Mr. Pouliot.

Mr. POULIOT: I will go into it.

Mr. COOPER: The par value of the securities repatriated since the war was $410,577,906.

Mr. POULIOT: What is left outside of Canada? Who owns the securities and bonds of the Canadian National Railways? I am speaking of all of them.

Mr. COOPER: Which were repatriated?

Mr. POULIOT: No. I thank you for the information that you have given, but I am speaking of the outstanding securities and bonds. Who owns them?

Mr. JACKMAN: The beneficial owners.

Mr. VAUGHAN: They are spread all over, amongst the insurance companies and others.

Mr. POULIOT: What part is in Canada and what part is outside Canada?

Mr. COOPER: I have just read that.

Mr. JACKMAN: No. That is how they are paid.

Mr. COOPER: I beg your pardon. I cannot tell you that.

Mr. POULIOT: You cannot tell us that?

Mr. COOPER: No.

Mr. JACKMAN: Are there any left in England, or in the United Kingdom?

Mr. VAUGHAN: I do not think there are any left in England. Any that were in England were repatriated and vested, except those over which the British government had no jurisdiction, such as securities which were held in foreign countries; perhaps some in Holland, Belgium, France and so on.

Mr. JACKMAN: You refunded one issue in the United States recently?

Mr. VAUGHAN: Yes. We have been refunding issues in the United States as they became due and borrowing the money from the Canadian government to pay them off, so the debt was transferred to the Canadian government from the public.

Mr. POULIOT: Were the perpetuals all repatriated?

Mr. VAUGHAN: All perpetuals that were in England were vested and brought out here and are now in the possession of the government.

Mr. JACKMAN: May I just ask this question? I do not recall the passing of that Act in the House last year where we revised the Canadian National Railways Capital Revision Act pursuant to chapter 8, 1945, as it says here. Why

was it found necessary to add Mr. Vaughan and Mr. Walton to the trustees? After all, they are to be trustees on behalf of the people of Canada.

Mr. Cooper: The original Act which set up the securities trust provided that there should be three railway officers as trustees and it named them by positions. I beg your pardon, I am wrong there. I should have said two officers. It was provided that there should be two officers, the chairman of the board of directors and the vice-president of finance. The position of vice-president of finance was abolished in 1945, and therefore it became necessary to amend the Act. The situation now is that two persons nominated by the board of directors of the Canadian National Railways are trustees of the securities trust. The other trustees are officers of the government.

Mr. Jackman: The majority are non-railway people?

Mr. Cooper: Yes.

Mr. Vaughan: That is correct.

Mr. Cooper: The directors are shown at the front of the Report.

Mr. Jackman: Yes; I see them there now.

Mr. Vaughan: There has been no additional representation as far as the railway is concerned.

Mr. Jackman: I do not recall the change being made in the House. From the note which the trustees make about the cancellation and cremation of these bonds, the inference is that the total issue is not retired, but that there are some bonds under the same mortgage in the hands of the public. Is that the understanding? That is in the first three paragraphs.

Mr. Cooper: The securities which were released were some collateral securities which were being held by the securities trust. The trustees of the mortgages enquired of the railway—as one of them matured in 1943—if it was the desire of the railway to cancel the mortgage. The matter was looked into and it seemed to be an advantage to get that mortgage cancelled, so application was made by the railway to the securities trust. There was no reason why they could not be cancelled and it has been done.

Mr. Jackman: It says here:

> ...and the trustees were satisfied that the advantages to the National Railways which would follow such action—

Namely, cremation.

> —are more than sufficient to offset any possible improvement in the position of any securities of the National Railways in the hands of the public which might result therefrom.

I was wondering why that statement had been made and wondered if it was because some bonds of some issue which was cremated were still outstanding in the hands of the public, so that against that specific charge on a piece of the railway you had now less bonds outstanding, and all the bonds so outstanding were in the hands of the public in the place of some of them being in the hands of the securities trust.

Mr. Cooper: Since 1937, from time to time, some of the collateral has been cancelled, for reasons which the railway felt were worth while. The trustees of the securities trust asked the railway for the reasons why they felt these securities should be cancelled, and we gave reasons. Certain language was adopted at the time, that the advantages to the railway in getting these securities out of the way more than offset any possible disadvantage there might be in improving the position of any junior securities; and we continue that language every time we make an application to the securities trust for cancellation. In respect of these particular securities, there is no important advantage accruing to

64552—4

the railway from the cancellation of the securities, except the fact that they served no particular purpose, they were a mortgage on the property, and we were paying fees to outside trustees for no good purpose. It is one of the things necessary to clean up our situation as we have the opportunity to do so.

Mr. JACKMAN: I have not put my question across to you yet, Mr. Cooper. I am simply asking this. You retired certain obligations on certain parts of the line. Are there obligations on those same parts of the system ranking equally or junior to the obligations which you have retired, and are those junior obligations in the hands of the public?

Mr. COOPER: I would say yes, in all probability, without checking that up.

Mr. JACKMAN: But you think there is no improvement?

Mr. COOPER: We do not think that the improvement in the position of the junior securities is important at all.

Mr. REID: I move the adoption of the report.

Mr. BOURGET: I second that.

The CHAIRMAN: It has been moved that the report be adopted. What is your pleasure, gentlemen?

(Motion agreed to.)

Hon. Mr. CHEVRIER: The next thing is the auditors' report.

Mr. JACKMAN: I might say, Mr. Chairman, that I think we should take a look at the certificate of the auditors. I think, under the Companies' Act, it has to be read at ordinary company meetings.

Mr. COOPER: Do you wish me to read the balance sheet of the securities trust?

Mr. JACKMAN: Oh, you do not have to do that, I do not believe. It is the same as last year, except for the verbal report, I take it.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st, December, 1945

Assets

Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805.10	
Grand Trunk Railway		118,582,182.33	
Grand Trunk Pacific Railway		116,006,599.08	
Canadian National Railway Company		96,936,971.75	$ 643,860,558.26
Claims for Interest on Loans—			
Canadian Northern Railway		$ 309,702,897.65	
Grand Trunk Railway		103,250,802.95	
Grand Trunk Pacific Railway		107,326,622.84	
Canadian National Railway Company		54,501,313.57	574,781,637.01
Transactions subsequent to 1st January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:	Year 1945	Total to Date	
Surplus Earnings	$24,756,130 00	$112,502,061.64	
Capital Gains	....	19,105,651.38	
Capital *Losses*	*2,125,088 53*	*19,933,594.12*	111,674,118.90
Collateral Securities—			
As per Schedule A.1			....
			$2,330,316,314.17

Liabilities

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock:—Initial stated value	$ 270,037,437.88	
Gain from transactions subsequent to 1st January, 1937—per contra	111,674,118.90	$ 381,711,556.78
Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value		948,604,757.39
		$1,330,316,314.17

T. H. COOPER,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1945.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1945, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937,

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1946.

Schedule A.1

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government to the Securities Trust

Loans Outstanding		*Notes and Collateral Held	
Canadian Northern Railway:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	{6% Demand Note	5,700,000.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	{3½% and 4½% Debenture Stocks	7,139,399.00
		6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	{Miscellaneous Bonds and Debentures	14,097,470.59
		{Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
Grand Trunk Railway:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	{4% Demand Note	15,000,000.00
		{4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	{4% Debenture Stock	60,801,700.00
		{6% 2nd Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$ 118,582,182.33		
Grand Trunk Pacific Railway:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

Schedule A.1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government to the Securities Trust

Loans Outstanding		**Notes and Collateral Held*	
Canadian National Railway Company:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr. 1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr. 364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
		166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
Temporary Loan 1930, repaid	....	5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr. 1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

*The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa' excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Hon. Mr. CHEVRIER: Who is looking after the auditors' report?

Mr. VAUGHAN: Mr. Matthews.

The CHAIRMAN: Is it the wish of the committee to read the auditors' report?

Mr. HAZEN: Yes.

The CHAIRMAN: All right, Mr. Matthews.

Mr. O. A. MATTHEWS: Mr. Chairman and gentlemen, we deal with the Canadian National Railways annual report first. The auditors' report is as follows:

15th March, 1946.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—

Acting under authority of The Canadian National-Canadian Pacific Act, 1933 as amended 1936, and Chapter 6, 1945, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway system for the year ended the 31st December, 1945, and we now submit, through you, our report to parliament.

Supplementing our audit certificate appended to the accounts published by the railway, we comment on the consolidated income account, consolidated balance sheet and general scope of audit as follows:

CONSOLIDATED INCOME ACCOUNT

The surplus amounting to $24,756,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before fixed charges and depreciation	$92,306,000
Less: fixed charges	49,009,000
Surplus before depreciation	43,297,000
Less: depreciation	18,541,000
Surplus	$24,756,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Replacements and retirements of fixed properties—excluding the St. Lin line abandonment charged to proprietor's equity;

(*b*) Deferred maintenance on a reduced scale from the previous year—in respect of fixed properties and equipment;

(*c*) Pensions covering

(I) Railway's portion of payments to retired employees under all plans, and

(II) Increase in pension contract reserve for the railway's portion of estimated capital amount of all pension contracts in force at the year end under the 1935 Plan;

(*d*) Insurance premiums mainly on risks carried outside of the insurance fund;

(*e*) Foreign exchange;

(*f*) General taxes, and

(*g*) Balance of amortization of certain defence projects considered as having no potential economic value in post-war operations.

It was not considered necessary to increase the wartime price reserve for material and supplies inventories in 1945.

Fixed charges, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover interest on funded debt held by the public, interest on loans from the Government, interest on unfunded debt, amortization of discount on funded debt and rent for leased roads and equipment. The ratio of these fixed charges to operating revenues was 11·3 per cent as compared with 11·4 per cent in the previous year.

Interest and discount on funded debt averaged 4·37 per cent and interest on loans from the dominion government 3·12 per cent or a composite rate of 3·70 per cent at the year end. These percentages are exclusive of foreign exchange.

Depreciation provision has been made for the equipment of both the Canadian and United States lines of the National System. The normal depreciation rate for the Canadian lines has been increased for the full year to equal the latest available composite of the rates used by the Class I railroads in the United States, the special provision made in prior years for abnormal wartime use of equipment being discontinued for the year 1945.

In respect of depreciable fixed properties—defined in the 1943 order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—depreciation provision has been made during the year for the United States lines of the National System in accordance with the 1943 order but not for the Canadian lines which continue on the retirement basis.

Replacements and retirements of fixed properties, as charged to operating expenses through the appropriate primary accounts in maintenance of way and structures, are matters on which some explanatory comment may be helpful. The term "replacements" refers to major renewals of facilities continued in service whereas the term "retirements" refers to facilities withdrawn from service and not replaced. The aforementioned charges to maintenance of way and structures accounts covering loss of service life, i.e. ledger value less salvage, relate mainly to the following:—

(*a*) Replacements of bridges, buildings, stations, shops, etc. on the Canadian lines only;

(*b*) Replacements of track structure i.e. ties, rails, other track material and ballast, on both the Canadian and United States lines;

(*c*) Retirements of bridges etc. on the Canadian lines only, and

(*d*) Retirements of track structure on both the Canadian and United States lines. The foregoing replacements of bridges etc. are charged to the relative primary accounts for each class of property as are the replacements of track structure with the addition of the track laying and surfacing account and the retirements of bridges etc. together with track structure are charged to road property—retirement account. In addition to these charges for replacements and retirements, the maintenance of way and structures accounts include the cost of "day-to-day" or "running" repairs and renewals on both the Canadian and United States lines. The loss of service life in replacements and retirements of bridges, etc. on the United States lines is charged against the depreciation reserve established under the 1943 order of the Interstate Commerce Commission. In the broad consideration of replacements and retirements, it should be borne in mind that the wartime reserve for deferred maintenance of fixed properties applies partly to such replacements and retirements as were postponed because of traffic demands during the period of military hostilities.

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that, subject to the war-time conditions which necessitated the provision for deferred maintenance, the fixed properties and equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year.

With respect to physical retirements of fixed properties and equipment, we have been furnished with certificates from the responsible officers to the effect that, insofar as traffic demands would permit, such physical retirements as should have been made during the year 1945, as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the accounting department.

The surplus for the year shows an increase of $1,729,000 in comparison with 1944. The decline in operating revenues was more than offset by decreased war-time provisions for deferred maintenance, equipment depreciation and inventory price adjustments; decreases in interest and the net amount of miscellaneous income accounts; that portion of the wage adjustments retroactive to 1943 which was taken up in the 1944 accounts—less additional maintenance work, costs of moving traffic and charges for pensions.

The term "surplus" used in the consolidated income account is synonymous with the term "surplus earnings" used in the Dominion of Canada—proprietor's equity account the composition of which is defined in the Capital Revision Act of 1937.

In the five year period of 1941 to 1945 the National System, with a record volume of traffic, has been able to make loan repayments to the government of $112,502,000 out of working capital created by surpluses. Whilst this has demonstrated that, given the traffic volume, the National System can be operated to the benefit of the broad economy of Canada, we would, nevertheless, commend to Parliament, for such consideration as it may deem practicable and necessary, the impact of the accumulated war-time increases in wage rates and material prices as carried into the post-war period on the operating results from prospective post-war revenues.

Consolidated Balance Sheet

The total amount of the investments in fixed properties and equipment as brought into the National System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us. As against the corporate portion of such property investments, there have been applied the substantial reductions authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the net additions and betterments as a whole of the National System have been shown on the basis of cost. During the year 1945 the net additions and betterments amounted to $10,584,000, the principal expenditures being for the purchase of rolling stock and the construction of the Bout de l'Ile Branch Line.

The several special funds of the National System including sinking funds, capital and other reserve funds, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to $85,921,000, are composed principally of investments in the securities of dominion, provincial and municipal governments and in the securities of companies within the National System together with cash. The year-end market value of the securities held in these special funds in total exceeded the book figure. During the year 1945 the total amount of the funds increased $8,780,000.

The insurance fund includes the amount set aside for unadjusted loss claims at the date of the balance sheet. The fund decreased $330,000 during the year as a result of heavier than usual fire losses but, in view of the fact that the long term level of the fund was maintained, no adjustment through operating expenses has been made in 1945.

Investments in affiliated companies, as detailed in the relative schedule, are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1945 financial statements issued by the companies representing the larger investments indicate that:—

(*a*) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1945, mainly for investment in Fixed Properties Equipment;

(*b*) No operating losses of major importance were sustained during the year 1945 excepting that of $884,000 in the case of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National System, the other 50 per cent being chargeable to the Canadian Pacific Railway;

(*c*) Having regard to their working capital position, reasonably liberal dividend policies are followed by those affiliates showing substantial earnings, and

(*d*) No corporate deficits have been accumulated up to the 31st December, 1945. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to accrued depreciation of fixed properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

During the year investments in affiliated companies increased $632,000, mainly with respect to the purchase of additional bonds of the Northern Alberta Railways Company and Toronto Terminals Railway Company in order to finance 50 per cent of the capital requirements of those companies in 1945, the other 50 per cent being subject to financing by the Canadian Pacific Railway.

Other investments are comprised partly of securities of the Dominion Government and those of companies within the National System in the amount of $619,000, the balance being represented by "unlisted" investments of a miscellaneous character valued at or below cost. The year-end market value of the Dominion Government and National System securities in total exceeded the book figure. Other investments as a whole decreased $930,000 during the year.

Temporary cash investments are represented by Dominion of Canada securities held principally in respect of the reserves for material and supplies inventories and amortization of defence projects. The year-end market value of these securities exceeded the book figure.

Current assets exceed current liabilities in the amount of $68,873,000 equivalent to a working capital ratio of 2·2 to 1. This compares with $69,376,000 and 2·2 to 1 respectively in 1944. The working capital position of the National System is regulated, broadly, by the application of the cash from depreciation, amortization and surpluses in the reduction of capital debt and requirements for capital additions and betterments.

Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in Western Canada. It may be of interest to note that the unsold land is included in miscellaneous physical property.

Discount on funded debt represents the unamortized portion of the discount incurred at the time the relative securities were sold, which will be written off against income in annual instalments during the remaining life of each issue.

Other unadjusted debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Long term debt does not include securities held in the treasury of the railway nor those held as collateral by The Canadian National Railways Securities Trust and the Dominion Government.

The combined capital debt was reduced by the net amount of $27,176,000 during the year. Generally speaking, this net reduction results from loan repayments to the government out of working capital created by surpluses, plus serial debt payments—less the balance of capital requirements for additions and betterments.

The corporate reserves for pension contracts, insurance, depreciation, amortization of defence projects, deferred maintenance and material and supplies inventories aggregate $185,631,000, of which $89,616,000 is represented by special funds and other specific investments. Furthermore, of the aforementioned $185,631,000 some $71,843,000 represents the amount carried forward in respect of special war-time provisions for depreciation of equipment in excess of normal rates, amortization of defence projects, deferred maintenance and material and supplies inventories. The reserves as a whole increased $25,464,000 during the year.

Accrued depreciation—Canadian Lines—applies only to equipment and dates from the 1st January, 1940, retirement accounting continuing in effect for fixed properties.

Accrued depreciation—United States Lines—applies to equipment from a date prior to the 1st January, 1923, and to fixed properties (excluding track structure) mainly from the 1st January, 1943.

Other deferred liabilities are comprised principally of the outstanding capital amounts of the workmen's compensation awards by the Provinces of Ontario and Quebec, and the balance of the obligation to the State of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits are made up of the Canadian Lines' estimated proportion of prepaid revenues on freight in transit; estimated liability for injuries to persons; estimated liability for loss and damage claims, and credit items not otherwise provided for or which can not be disposed of until additional information is received.

Dominion of Canada—Proprietor's Equity—is set forth in the balance sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account. The dominion's equity increased in the net amount of $22,631,000 during the year as the result of surplus earnings less capital losses on the abandonment of the St. Lin subdivision and the retirement of equipment. In respect of the latter item it should be pointed out that as no depreciation accruals were made prior to 1940, the loss of service life, i.e., ledger value less salvage, has been charged against the reserve to the extent of depreciation accruals from 1940 the balance being charged against the equity account, which procedure is in line with the principle adopted by the Interstate Commerce Commission when depreciation accounting for equipment was first instituted for United States railways. The following explanatory comments may be of some value in clarifying this account;

(*a*) The Proprietor's Equity Account, as detailed in the relative schedule, may be compared in principle with the shareholders' equity in privately owned corporations represented by the combined book value of capital stock and surplus.

(*b*) The Capital Stock of the Canadian National Railway Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System.

(*c*) The initial stated value of the capital stock of The Canadian National Railways Securities Trust is shown as at the 1st January, 1937, and represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to share capital.

(*d*) The surplus earnings of $112,502,000 are for the years 1941 to 1945 inclusive and the capital gains on repatriation of securities and capital losses on major retirements of road and equipment not covered by depreciation accruals are for the years 1937 to 1945 inclusive. These surplus earnings, capital gains and capital losses of the National System have been applied in their entirety to the capital stock of the Securities Trust. Section 12 of The Canadian National-Canadian Pacific Act, 1933 as amended 1936, stipulates that "Income deficits shall not be funded".

(*e*) The capital expenditures by Dominion of Canada on Canadian Government Railways represent the direct appropriations by parliament prior to entrustment and are exclusive of certain capital expenditures on the Crown property financed by the Canadian National Railway Company out of funded debt issues and government loans.

Major contingent liabilities are outlined in the relative schedule. In respect of Pension Plans referred to therein, we would point out that:—

(*a*) Under the 1935 Contractual Plan a reserve is set up on the books of the railway against the estimated capital value of contracts in force but not against pensions conditionally accruing. The reserve is represented by the Pension Contract Fund the assets of which, amounting to $29,671,000, are in the form of Dominion of Canada securities together with accrued interest and cash. The contributions by employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the railway. The assets of the separate Pension Trust Fund amounting to $21,197,000 are in the form of Dominion of Canada and Dominion Guaranteed National System securities together with accrued interest and cash. The total amount of the two funds in operation under the 1935 Plan is $50,868,000.

(*b*) Under prior non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

In considering the foreging, it should be borne in mind that operating expenses are charged with pension costs covering

(I) Railway's portion of payments to retired employees under all Plans, and

(II) Increase in Pension Contract Reserve for the railway's portion of the estimated capital amount of all Pension Contracts in force at the year end under the 1935 plan.

Where foreign currencies are involved, the accounts of the National System are stated in Canadian funds converted mainly at the par of exchange.

During 1945 the Interstate Commerce Commission prescribed changes in the composition of certain primary accounts in the balance sheets of United States railways. In so far as they were applicable, the National System has adopted such changes in the Consolidated Balance Sheet.

General Scope of Audit

The general scope of the test audit of the National System accounts for the year 1945 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded resolutions of the directors, which in turn are related to Corporate By-Laws, Orders in Council and Acts of Parliament;

(*b*) Audit tests in the offices of regions, separately operated properties and system headquarters, limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the system. In this connection we work in collaboration with the executive accounting officers at headquarters having as a common objective the securing of maximum internal protection to the system in the control of cash receipts and expenditures, securities held, material stores, accounts receivable, etc., and through the carrying of Fidelity Bond Insurance with outside Underwriters, and

(*d*) Audit and certification of the Consolidated Income Account and Consolidated Balance Sheet for presentation to parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the system.

The test audit covers the various balance sheet accounting units in Canada, the United States and Great Britain with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters. These accounts apply to some 86 companies, as detailed in the relative schedule, and the Canadian Government Railways which comprise the National System as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine Limited and the Trans-Canada Air Lines, the holdings in the capital stocks of the affiliated companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the companies are not treated as units of the National System nor are their accounts audited by us. In a few instances their accounts are certified by public accountants but for the most part they are audited by joint committees composed of National System accountants and representatives of outside interests.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937 as amended 1945, as follows:—

> There shall be a corporation to be known as "The Canadian National Railways Securities Trust," hereinafter in this Act referred to as the "Securities Trust," consisting of five trustees who shall be the persons who, respectively, hold the offices from time to time of Deputy Minister of Finance, Deputy Minister of Transport and Deputy Minister of Justice and such two officers of the National Railways as may be named from time to time by resolution of the Board of Directors of the National Railways. The trustees shall serve without remuneration.

The primary function of the securities trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate indebtedness (formerly to the Dominion but now to the Trust) and relative collateral securities, for the purpose of preserving any priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public. This function of the Trust lessens in importance with the passing of time as unguaranteed securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our audit certificate appended to the accounts published by the Securities Trust, we comment on the balance sheet as follows:—

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' Report and a separate balance sheet for the Trust. It is further provided that the Trustees' Report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its capital stock originating in the accounts of the Railway and, subject to the approval of the Governor in Council, any releases of indebtedness or collateral securities belonging to the Trust.

The next is the Canadian National West Indies Steamships Limited.

Mr. Reid: I think we can take a rest right there. You have done very well.

Mr. LaCroix: I suggest the adoption of the report.

The Acting Chairman: Is that seconded?

Mr. Jackman: We might ask a few questions on it. You mention insurance premiums mainly on risks carried outside of the insurance fund. Later on you speak of certain fidelity insurance being carried by the company?

Mr. Matthews: Yes.

Mr. Jackman: As we heard before there is no substantial amount of insurance carried outside the system itself, is there? They carry their own insurance with what exceptions?

Mr. Matthews: In 1945 the total of the premiums approximated $170,000. That is premiums paid by system companies of which about $100,000 were reinsured and about $70,000 was contributed to the fund principally by the Grand Trunk Western. That is the principal exception. In other words, outside of the Grand Trunk Western the premiums within the fund are not charged.

Mr. Jackman: As I understand it from what you have said $170,000 was paid in premiums?

Mr. Matthews: That is right, into the fund, premiums collected by the insurance fund and paid in there by system companies, of which $170,000 approximately $100,000 was used as premiums for reinsurance with outside underwriters.

Mr. Reid: You state that repayments have been made to the government of $112,502,000. What has that meant in the reduction of interest charges?

Mr. Matthews: It would reduce the capital outstanding at the end of each of those years and to the extent and on the basis of the interest rate then charged by the government.

Mr. Reid: That is a substantial reduction.

Mr. Matthews: It has been a reduction in the capital indebtedness.

Mr. Reid: I think I asked this question last year but I always come back to it. These are round figures that you gave us on page 1. On page 1 you have $24,756,000 and in the balance sheet it is $130 out.

Mr. MATTHEWS: That is right. We go to the nearest thousand for those figures.

Mr. JACKMAN: What was the nature of the risks that required $100,000 of reinsurance and at the same time may I ask if there is any ruling under I.C.C. practice in regard to a railway carrying its own insurance?

Mr. MATTHEWS: No.

Mr. JACKMAN: They may carry it themselves or outside?

Mr. MATTHEWS: As far as this insurance fund is concerned, it applies principally in Canada, in any event.

Mr. JACKMAN: You mentioned the Grand Trunk Western.

Mr. MATTHEWS: The Grand Trunk Western. You wanted a general statement.

Mr. JACKMAN: Just generally the nature of the risks. Perhaps some of the officers would have that.

Mr. MATTHEWS: No, I can give it to you. The reinsurance covered the Grand Trunk Milwaukee Car Ferry, the Ontario Car Ferry, Pacific Coast Steamships, a war risk, the Eastern Car Ferry, employees' automobile liability insurance, London office, and a few others. Those are the main items.

Mr. JACKMAN: Is there any particular principle behind this carrying of reinsurance with outside companies that does not apply to the risks which the company carries itself?

Mr. MATTHEWS: That is a matter of corporate policy. I think perhaps you might direct that question to Mr. Vaughan.

Mr. VAUGHAN: What was that question?

Mr. JACKMAN: You paid $100,000 for reinsurance in connection with certain risks, and Mr. Matthews outlined the particular risks that were insured outside. I was just wondering what principle determines whether or not you will carry it yourself or whether you will resort to an outside underwriter.

Mr. VAUGHAN: Where we have an outside risk of that kind there is always a particular reason for it. Mr. Matthews mentioned the Milwaukee Car Ferry. The Pennsylvania Railway have an interest in that. As to the Ontario Car Ferry, the B. & O. railway have a half interest. That is a joint account. We do not think it is wise for us to carry the entire risk in those cases.

Mr. JACKMAN: And as you say under I.C.C. practice the railway may or may not carry its own insurance?

Mr. MATTHEWS: I have no knowledge of any prohibition in that regard.

Mr. VAUGHAN: Mr. Cooper would know that.

Mr. COOPER: Under I.C.C. there is no prohibition against a company carrying its own risks, none whatever.

The ACTING CHAIRMAN: Are there any other questions?

Mr. HAZEN: I do not know how you pronounce it but there is the construction of the Bout de l'Ile line.

Mr. VAUGHAN: That runs on the Island of Montreal from where the tunnel comes out from the new station to the eastern end of the Island of Montreal.

Mr. HAZEN: How many miles?

Mr. WALTON: 14 miles.

Mr. HAZEN: It cost about half a million dollars?

Mr. VAUGHAN: It cost more than that. I think the total cost was $2,500,000 or $3,000,000.

Mr. WALTON: About $2,800,000, in round figures.

The ACTING CHAIRMAN: It has been moved by Mr. LaCroix and seconded by Mr. Reid that the report be adopted.

Mr. JACKMAN: I am sorry but on page 4 in paragraph (*c*) you say:

> Having regard to their working capital position, reasonably liberal dividend policies are followed by those affiliates showing substantial earnings.

May I ask about how much was added to their earned surplus that was not disbursed to the owning company?

Mr. MATTHEWS: I could file that. I have not the details for each company.

Mr. JACKMAN: Would it amount to some hundreds of thousands, or some millions?

Mr. MATTHEWS: Oh, no, not millions. I can get that for you.

Mr. JACKMAN: It is a relatively small amount?

Mr. MATTHEWS: Yes. It does not run into millions or anything like that, as far as annual dividends are concerned.

Mr. JACKMAN: Do you know how much was paid in dividends by affiliated companies to the parent?

Mr. MATTHEWS: Yes, I can get you that, but I do not think I have got it in my papers right here, but I will file it for you.

Mr. JACKMAN: Are there not quite large affiliated companies from which the system derives substantial dividends? I was wondering how much was held back to build up the affiliates.

Mr. MATTHEWS: That is a point we make that from examination of the accounts taking into consideration the working capital position of each of the companies there is no indication they are piling up net current assets, in other words, withholding dividends.

Mr. JACKMAN: I quite appreciate it may be sound corporate policy for an affiliate to retain a large or small part of its surplus earnings and not declare them in dividends, but if the affiliate was in a bad position and needed working capital greatly it might only pay out 15 or 25 per cent of its earnings to the parent?

Mr. MATTHEWS: That is a point we make in the Report—

Mr. JACKMAN: How much better off is the system by reason of its share of the increased earned surplus in the affiliated companies which has not been declared out in dividends?

Mr. MATTHEWS: Would you like to have the dividends paid for any given year? Is that what you want? A list of the dividends paid or information on their working capital position?

Mr. JACKMAN: I only want to ask a question which will bring out information as to whether or not the system is earning a considerable amount of money in its affiliates which has not been declared out to the system?

Mr. MATTHEWS: We say not, that from examination of the accounts of the affiliated companies we do not think there is any evidence they are withholding dividends beyond a reasonable proportion of working capital.

Mr. JACKMAN: The word "reasonable" does not answer my question. If an affiliated company needs to build up its own position, it would be very unreasonable for them to pay out a substantial amount of earnings to the parent?

Mr. MATTHEWS: Quite right.

Mr. JACKMAN: But it might be earning money all the same.

Mr. MATTHEWS: Perhaps in these affiliate companies it is well to bear in mind the purpose of the investments. They are not made primarily as an investment to earn money on the investment. They are of a character for traffic interchange and terminal facilities. For instance, the Toronto Terminal Railways is a sample and, of course, we have indicated to you about the Northern Alberta. Dividends are not available there but on two or three of the American affiliates, we could give you that.

Mr. JACKMAN: I see that the total book value of investments in affiliated companies is only $10,000,000 anyway. It is not very substantial.

Mr. MATTHEWS: In affiliates?

Mr. JACKMAN: $10,000,000 is the total investment.

Mr. MATTHEWS: That is in stocks but in the bonds there is $28,000,000. There is only $10,000,000 for stocks.

Mr. JACKMAN: Oh yes, I see.

Mr. MATTHEWS: And $28,000,000 for bonds.

Mr. JACKMAN: And $41,000,000 for advances?

Mr. MATTHEWS: No, $2,500,000 for advances.

Mr. JACKMAN: A total of $41,000,000.

Mr. MATTHEWS: Yes. The Northern Alberta is the road to which we referred as to the amount of the deficit, and the Toronto Terminals are strictly a terminal facility.

The ACTING CHAIRMAN: Are there any other questions on that report?

Mr. JACKMAN: On page 6, paragraph (*b*) you say:

> Under prior non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

You are speaking of the pensions. Is the amount which will be charged to current operations to meet these pensions likely to be in an ascending scale or a descending one from now on?

Mr. MATTHEWS: I could not answer you that. I would not want to project a figure. I would rather you would ask the company that.

Mr. VAUGHAN: I think Mr. Cooper can give us that figure, roughly.

Mr. COOPER: There is no doubt that our pension costs will increase for some years to come; I would think for the next 15 years.

Mr. JACKMAN: Do you know approximately how much they were for last year?

Mr. COOPER: Last year they were $9,000,000.

Mr. JACKMAN: This is under the non-contractual plan?

Mr. COOPER: No. This is under all plans.

Mr. JACKMAN: I presume the contractual plans are pretty well self-supporting?

Mr. COOPER: Under the old pension plan—and that fund was closed in 1935—anybody who had been pensioned at that date today must be at least, say, 76 years of age, and it cannot go on very much longer.

Mr. JACKMAN: The contractual plan, I take it, is self-supporting?

Mr. COOPER: The non-contractual plan in 1945 cost us $684,000. In the previous year it was $770,000. So there is a reduction for the year of $90,000. I would think that reduction per annum would accelerate. But actuarially, a pensioner could live to, say, 100 and it is possible for the non-contractual plan to involve charges against the railway for the next 20 years, but they are on a diminishing scale. It is only a matter of a few years before that plan will be no burden whatever on the railway.

Mr. JACKMAN: And under the contractual plan, the pensions are self-supporting, actuarially?

Mr. COOPER: Yes. That is to say, when an employee goes on pension, he gets a contract under which the Canadian National Railway company agrees to pay him a fixed amount per month as long as he shall live, or in the case of a joint and survivor, or a guaranteed type of pension according to the terms of

the contract. The actuarial value of each one of those contracts is computed and the amount is taken and charged to operating expenses and is invested in securities.

Mr. JACKMAN: They are self-supporting; and the non-contractual plan will shortly disappear and will diminish from year to year.

Mr. COOPER: At the end of 1945 we had in our contractual plan fund $29,671,000. That was something we began in 1944, it has been going only three years. We have done very well.

Mr. JACKMAN: Mr. Matthews, you are quite in agreement with the action under the securities trust in cancelling those securities?

Mr. MATTHEWS: Yes, sir. That is in strict accordance with the Act. It was also approved by Order in Council.

Mr. JACKMAN: But it passes your judgment as auditors?

Mr. MATTHEWS: Yes. It is all leading up to a simplification of the internal capital structure of the system.

The ACTING CHAIRMAN: Are there any other questions, gentlemen?

Mr. REID: I move the adoption of the report.

The ACTING CHAIRMAN: Now, will you read the Canadian National (West Indies) Steamships Limited?

Hon. Mr. CHEVRIER: Could we not take that as read?

The ACTING CHAIRMAN: Will you take that as read?

Mr. REID: I think we could very well take it as read. It is very well written.

Mr. JACKMAN: What is the use of having a report, then?

Hon. Mr. CHEVRIER: We have spent quite a lot of time on the steamships this afternoon, and there are still some items of estimates to go through. I wondered whether we could not just consider this as read.

Mr. REID: I move that it be taken as read, and considered and adopted.

Mr. JACKMAN: I might just ask this. Is there anything in it to which he wishes to direct our attention especially? Is there anything, Mr. Matthews, that you want to draw to our attention in this West Indies report?

Mr. NICHOLSON: Would you care to make any comment on the discussions earlier in the day about this item of $5,039,000?

Mr. MATTHEWS: Only to say, Mr. Nicholson, that so long as the Department of Finance furnishes us with a certificate to the effect that the $5,000,000 is owing, there is no other course.

Mr. NICHOLSON: I appreciate that, but from the point of view of audit, what do you say?

Mr. MATTHEWS: I would not consider that would be part of our function. I think it is a matter of government policy, and our job we regard to be the setting out of facts. As long as the Department of Finance regard it as a liability, we have no alternative.

Mr. NICHOLSON: The taxpayer of Canada is also interested.

Mr. REID: As an auditor, it would be an easy figure for you to add each year.

Mr. JACKMAN: May I ask this question of Mr. Matthews? Are there many companies which your firm audits, and with which you are familiar, where a deficit has been carried for 15 years or more and interest has accrued each year and piled up there?

Mr. MATTHEWS: No.

Mr. JACKMAN: Do you know of any?

Mr. MATTHEWS: No. It is in the same category as the Canadian National Railway system was in 1937 when the Capital Revision Act was brought in; the same principle.

Hon. Mr. CHEVRIER: Do you audit any other railway company besides the national system?

Mr. MATTHEWS: Not in Canada. But we regard that as a matter of policy outside our function. Our job is to set out facts to the committee and not matters of policy.

Mr. NICHOLSON: I appreciate that very much. But if you were auditing for a private company, would you not have some comment to make?

Mr. MATTHEWS: If we were auditing a commercial corporation with a deficit of $5,000,000 and which owed the bank or anyone else the same amount, that would be set out in the balance sheet as it is in the case of the West Indies steamships; and it would again be a matter of corporate policy as to re-organization.

Mr. NICHOLSON: Would you not have some comment to make regarding the carrying on of this for 15 years?

Hon. Mr. CHEVRIER: Has not that matter been disposed of pretty much by the committee?

Mr. NICHOLSON: I think it is quite relevant.

Hon. Mr. CHEVRIER: I do not want to interrupt you, but what you want the witness to say is exactly contrary to what the committee has already said by way of decision.

Mr. NICHOLSON: Yes. But I think I am quite in order in getting the auditor's comment regarding a matter of bookkeeping of this nature.

Mr. JACKMAN: Perhaps the auditor would simply say whether or not there is any difference so far as accounting principle is concerned here.

Hon. Mr. CHEVRIER: He has already said, has he not, that it is not a matter for him to say.

Mr. REID: As an auditor, it would not be difficult to add that $5,000,000 to a balance sheet. What is the use of asking the auditor about it, if it makes no difference to him?

Mr. MATTHEWS: Based upon the liability, the legal liability—the Department of Finance says it is a liability, and so long as that remains there is no other course.

Mr. JACKMAN: If I may say so, the minister seemed to be endeavouring to discredit the witness by asking whether or not the firm audited any other railways. But what I am asking the witness is if there is any difference in accounting principles, whether these are railway accounts or whether they are accounts of any other corporation?

Mr. MATTHEWS: I think as long as a company—it matters little what kind of a company it is—has a liability, regardless of why or for what purpose the money is borrowed, there is no alternative but to state it so long as the corporate owners of that property make no alteration in their capital structure.

Hon. Mr. CHEVRIER: May I point out, Mr. Jackman, that I was asking a question, not attempting to discredit the witness. In order to discredit a witness one proceeds otherwise. You know that, being a lawyer.

Mr. JACKMAN: I was not serious.

(The auditors' report on Canadian National (West Indies) Steamships Limited follows.)

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

15th March, 1946.

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—

Acting under your authority we have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended the 31st December, 1945, and we now submit our report thereon.

The accounts of the Steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion government.

Supplmenting our audit certificate appended to the accounts published by the Steamships, we comment on the consolidated income account, consolidated profit and loss account and consolidated balance sheet as follows:—

Consolidated Income Account

The consolidated income account reflects the results of the Canada-West Indies operations, agency services rendered mainly to Park Steamships and to the war-time Canadian Government Merchant Marine and the temporary chartering of certain ships to the Dominion government and others.

The surplus amounting to $1,116,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before interest and depreciation	$ 2,008,000
Less: interest	613,000
Surplus before depreciation	$ 1,395,000
Less: depreciation	279,000
Surplus	$ 1,116,000

The general expenses of operation include the cost of wages, materials, etc. together with the following items which may be of interest:—

(*a*) Administrative charges by Canadian National Railways;

(*b*) Pension payments to the Canadian National Railway Company as pension contract underwriter;

(*c*) Insurance premiums on risks carried both by the insurance fund and outside underwriters;

(*d*) Foreign exchange, and

(*e*) General taxes.

Interest and discount on funded debt averaged 5·03 per cent and interest on loans from the Dominion government 2·5 per cent or a composite rate of 4·15 per cent at the year end. These percentages are exclusive of foreign exchange.

Depreciation covers both the Lady ships and the freighters at the uniform rate of 5 per cent for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of capital assets.

The surplus for the year show a decrease of $155,000 in comparison with 1944. The reduction in operating revenue caused a decrease in the direct operating profit, and the adjustment to a 5 per cent rate for freight vessels added to the

depreciation charges. As against this, however, the cost of government interest was reduced and replacement fund earnings were credited to the income account for the first time.

Consolidated Profit and Loss Account

The deficit decreased in the net amount of $3,106,000 during the year as the result of the surplus in 1945 and the transfer of the replacement reserve representing the accumulated capital gains and earnings of the fund up to the end of 1944—less certain adjustments of past depreciation accruals.

Consolidated Balance Sheet

Investment in vessels is carried on the basis of cost. During the year this investment was reduced by $30,000 as a result of insulation retirements on the SS. "Cavelier". Plant and equipment were written off to operating expenses and office furniture and fixtures were transferred to inventories in 1945.

Accrued depreciation covers the period from the inception of operations in 1929 to 1945.

Replacement and insurance funds aggregating $8,001,000 are composed principally of investments in the securities of Dominion, provincial and municipal governments together with cash and unsettled claims against underwriters. The year-end market value of the securities held in these funds exceeded the book figure.

The replacement fund is maintained for the purpose of providing either for vessel replacement or redemption of the outstanding bonds at their maturity. The fund increased $627,00 during the year.

The insurance fund includes the amount set aside for unadjusted loss claims at the date of the balance sheet. The risk coverage is exclusive of the Lady ships which were under charter at the end of 1945 to the Dominion government. The fund increased $106,000 during the year.

Current assets exceed current liabilities in the amount of $717,000 equivalent to a working capital ratio of 1·5 to 1. This compares with $959,000 and 1·8 to 1 respectively in 1944. The working capital position of the Steamships is regulated, broadly, by the depositing of the cash from depreciation in the replacement fund and by the application of the cash from surpluses in reduction of Dominion government loans and any requirements for capital additions and betterments.

Discount on capital stock represents the intangible book value set up at the time of incorporation to offset the par value of the 400 shares at $100 each issued without cash or equivalent consideration.

Capital stock and funded debt remained unchanged in 1945.

Dominion of Canada advances were reduced by $1,033,000 during the year as a result of loan repayments to the government out of working capital created by surpluses and out of the replacement fund.

Unadjusted credits are comprised largely of uncompleted voyage suspense items, miscellaneous accruals and estimated provisions for liabilities the actual amounts of which were not determinable at the date of the balance sheet.

Profit and loss covers the period from the inception of operations in 1929 to 1945. In considering the deficit it is well to remember that interest on advances for deficits has been charged for the entire period.

With reference to the contingent liability for steamships pensions, we would point out that a funded reserve is provided through the C.N.R. as pension contract underwriter against the estimated capital value of contracts in force under the 1935 plan but not against pensions conditionally accruing. In this connection it should be borne in mind that operating expenses of the Steamships are charged with pension payments to the C.N.R. pension contract fund. The

contributions by the Steamships employees presently in service are invested through the separately administered pension trust fund under the C.N.R. 1935 plan.

Where foreign currencies are involved, the accounts of the Steamships are stated in Canadian funds converted mainly at the par of exchange.

The test audit of the Steamships for the year 1945 was similar in scope to that of the National System previously outlined in this report.

The Acting Chairman: Gentlemen, there were three items of estimates referred to us. Could we pass those?

Mr. Nicholson: Could they not stand until the T.C.A. report is before us?

Hon. Mr. Chevrier: No. These are items of the Department of Transport. They have nothing to do with T.C.A. They were passed, if you remember, at the end of these sittings last year. There are three small items. I wonder if I could just say a word about them? But first might I mention the Hudson Bay Railway. There is an ordinary capital item. It is covered by vote No. 416, and it is for $15,500.

Mr. Jackman: It is an ordinary capital item? You mean it is to make up the annual deficit?

Hon. Mr. Chevrier: No. There is another vote for that. The 416 vote is the one having to do with capital money for construction and improvements. It is a small amount that is voted each year for capital account. This year the railway wants $15,500. The details of that are set out here.

Mr. Jackman: Whereabouts?

Hon. Mr. Chevrier: In the book of estimates that I have. They are:

Capital portion of cost of filling trestle at mileage 352·4	$14,000	
Engineering and supervision	1,000	
		$15,000
Provision for payment for land acquired at Churchill, Manitoba, for railway right-of-way		500
		$15,500

Mr. Hazen: Where are you reading from?

Hon. Mr. Chevrier: I am reading details concerning vote 416.

Mr. Nicholson: Do we require the Canadian National officials here for this discussion?

Hon. Mr. Chevrier: I do not think so, unless you want to ask some questions on the operations of the Hudson Bay Railway.

Mr. Nicholson: If there are several more items, and as it is almost 6 o'clock, I am wondering if we do have to have them.

The Acting Chairman: There are just three items referred to us.

Mr. Nicholson: The committee has to meet again the week after next. We are not finished with our business.

Hon. Mr. Chevrier: It has been the practice to finish the railway business. It has been the practice to dispose of the railway business, and in the past it has been disposed of in a very short time. If you want me to come back to-morrow, I will. But I would ask the committee to dispose of it tonight, if we can do so. I think we ought to do that.

Mr. Hazen: Let us try to do it.

Mr. JACKMAN: May I suggest that we at least have tabled a similar statement to the one which we had last year on the operations of the Hudson Bay Railway.

Hon. Mr. CHEVRIER: I have it here, and I will file it.

Mr. JACKMAN: I should like to have a copy myself.

Hon. Mr. CHEVRIER: I will see that it is distributed.

Mr. JACKMAN: Perhaps I can just ask a general question. Is there anything new in the Hudson Bay Railway operations?

Mr. VAUGHAN: No, there is not. The railway has to be operated. It is operated with a minimum of service. There is no change in the situation.

Hon. Mr. CHEVRIER: Mr. Jackman, there is a very up-to-date report by Mr. Fairweather on the present position of the Hudson Bay Railway, which I would be glad to file.

Mr. JACKMAN: You will be asking for a vote for the Hudson Bay Railway of how much?

Hon. Mr. CHEVRIER: There will be a capital vote of $15,500; and for operations, deficit account, $525,000.

Mr. JACKMAN: It will probably mean throwing good money after bad, I suppose.

Hon. Mr. CHEVRIER: Vote 422, Maritime Freight Rates Act, is a statutory item which is paid to the Canadian National Railways by virtue of section 9 of the Maritime Freight Rates Act, amounting this year to $3,042,000.

Mr. REID: I move it be passed.

The ACTING CHAIRMAN: That is carried?

(Motion agreed to.)

Hon. Mr. CHEVRIER: Vote 423, other companies under the Maritime Freight Rates Act, the difference between the tariff tolls and the normal tolls, $900,000.

Mr. LACROIX: I move that it be passed.

(Motion agreed to.)

Hon. Mr. CHEVRIER: Vote 469, deficit on Prince Edward Island car ferry, $707,000.

Mr. LACROIX: I move it be passed.

(Motion agreed to.)

Hon. Mr. CHEVRIER: Then, if I understand this aright, votes 422, 423 and 469 are approved; but I am to file Mr. Fairweather's report later on.

Mr. JACKMAN: Is that P.E.I. estimate a statutory one?

Hon. Mr. CHEVRIER: No.

Mr. JACKMAN: Then on behalf of Mr. McLure, I think I should object to the passing of that deficit until we get the rates on the ferries adjusted.

Hon. Mr. CHEVRIER: Well, yes. Is my understanding correct?

Mr. LACROIX: I so move.

The ACTING CHAIRMAN: Those three items are carried, then.

Hon. Mr. CHEVRIER: I file now, Mr. Jackman, a statement of the Hudson Bay Railway covering consolidated income account, fiscal year 1945-46 and fiscal year 1944-45. It gives you a detailed statement of what you wish. (Printed as Appendix "C".)

Mr. JACKMAN: Thank you.

Hon. Mr. CHEVRIER: A copy for every member of the committee has now been distributed.

Mr. HAZEN: That statement of the Hudson Bay Railway causes some concern.

Hon. Mr. CHEVRIER: It certanly does.

Mr. HAZEN: It seems to me something will have to be done some of these days.

Hon. Mr. CHEVRIER: I received a note from Mr. Howe a moment ago with reference to Trans-Canada Air Lines. I wonder if it would be agreeable to the committee to sit on the 28th of May? That jumps next week. We will meet on Tuesday, the 28th. That I think, follows the suggestion of the committee a day or two ago.

The committee adjourned at 6.10 p.m. to meet again on Tuesday, May 28, 1946.

DEPARTMENT OF TRANSPORT Appendix C

HUDSON BAY RAILWAY

Consolidated Income Account Fiscal Year 1945-46 and Fiscal Year 1944-45

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
RAILWAY OPERATING REVENUES		
Freight	$ 157,472 03	$ 150,481 22
Passenger	41,917 04	42,074 39
Mail	2,420 01	3,654 22
Express	11,224 06	6,601 50
Telegraphs	15,978 39	21,704 54
All Other	16,275 67	21,713 25
Total Operating Revenues	$ 245,287 20	$ 246,229 12
RAILWAY OPERATING EXPENSES		
Maintenance of Way and Structures	$ 364,482 94	$ 396,331 54
Maintenance of Equipment	55,908 89	52,984 96
Transportation	190,944 51	216,307 65
Miscellaneous Operations	14,718 83	18,943 53
General	25,345 08	26,580 54
Total Operating Expenses	$ 651,400 25	$ 711,148 22
Net Operating Revenue	$ 406,113 05*	$ 464,919 10*
Taxes	$ 3,284 85	$ 3,648 38
Railway Operating Income.	$ 409,397 90*	$ 468,603 48*
EQUIPMENT RENTALS		
Hire of Freight Cars—Debit	$ 33,982 90	$ 31,058 97
Rent for Locomotives	34,753 83	43,965 25
Rent for Passenger Train Cars	8,022 14	4,807 86
Rent for Work Equipment	25,399 12	28,178 38
Total Equipment Rentals	$ 102,157 99	$ 108,010 46
Joint Facility Rents—Credit	$ 11,780 00	$ 11,510 00
Miscellaneous Rent Income—Credit	111,66	163 92
	$ 11,891 66	$ 11,673 92
Net Deficit	$ 499,664 23*	$ 564,940 02*

* Loss.

HUDSON BAY RAILWAY

Railway Operating Revenues and Expenses

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Railway Operating Revenues		
Freight	$ 157,472 03	$ 150,481 22
Passenger	41,917 04	42,074 39
Baggage	404 29	447 94
Sleeping Car	....	3,081 35
Mail	2,420 01	3,654 22
Railway Express	11,224 06	6,601 50
Other Passenger-train	622 17	283 69
Milk	143 40	206 16
Switching	90 00	600 60
Dining and buffet	....	1,238 90
Restaurants and Boarding Cars	9,553 72	11,019 95
Station, train and boat privileges	391 30	688 58
Storage-Freight	88 54	25 14
Demurrage	1 65	131 16
Telegraphs	15,978 39	21,704 54
Power	415 52	541 63
Rents of buildings and other property	17,795 19	2,319 76
Miscellaneous	2,769 89	1,128 39
Total Operating Revenues	$ 245,287 20	$ 246,229 12
Railway Operating Expenses		
Maint. of Way and Structures	$ 364,482 94	$ 396,331 54
Maintenance of Equipment	55,908 89	52,984 96
Transportation	190,944 51	216,307 65
Miscellaneous Operations	14,718 83	18,943 53
General	25,345 08	26,580 54
Total Operating Expenses	$ 651,400 25	$ 711,148 22
Net Revenue	$ 406,113 05*	$ 464,919 10*

* Loss.

HUDSON BAY RAILWAY

Railway Operating Expenses

Maintenance of Way and Structures	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Superintendence	$ 32,766 61	$ 30,057 24
Roadway maintenance	54,169 38	69,356 05
Bridges, trestles, and culverts	8,148 76	13,361 22
Ties	42,106 14	39,173 69
Rails	48 38	28 69
Other track material	2,135 04	1,180 31
Ballast	25,046 19	24,274 69
Track laying and surfacing	138,472 20	156,616 83
Fences, snowsheds and signs	371 92	151 46
Station and office buildings	6,530 82	9,253 18
Roadway buildings	1,680 50	2,843 56
Water stations	4,035 43	5,193 24
Fuel stations	196 01	1,207 89
Shops and enginehouses	1,968 79	1,195 72
Telegraph and telephone lines	7,083 38	7,855 60
Signals & Interlockers	16 90	....
Roadway machines	6,310 01	2,995 41
Small tools and supplies	14,865 49	13,048 56
Removing snow, ice, and sand	23,227 03	19,925 48
Insurance	....	2,987 50
Stationery and printing	....	....
Maint. jt. tracks, yards, etc., Dr.	1,095 66	1,087 58
Maint. jt. tracks, yards, etc., Cr.	5,791 70 *	5,462 36 *
Protective Services	....	....
Total Maint. of Way & Structures	$ 364,482 94	$ 396,331 54

Maintenance of Equipment	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Superintendence	$ 4,149 27	$ 3,991 81
Shop machinery—Repairs	1,162 70	1,365 61
Power plant machinery—Repairs	1,688 69	16 78
Steam locomotives—Repairs	25,520 28	30,048 41
Freight-train cars—Repairs	994 82	1,126 69
Passenger-train cars—Repairs	6,827 08	8,790 41
Work equipment—Repairs	12,866 76	5,152 97
Insurance	....	943 42
Other expenses	2,699 29	1,548 86
Total Maintenance of Equipment	$ 55,908 89	$ 52,984 96

* Loss.

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
TRANSPORTATION RAIL LINE		
Superintendence	$ 21,018 13	$ 22,037 03
Dispatching trains	4,261 81	4,408 60
Station employees	16,902 54	19,992 77
Station supplies and expenses	7,487 32	7,216 48
Yardmasters and yard clerks	....	238 77
Yard conductors and brakemen	....	55 83
Yard switch and signal tenders	....	15 63
Yard enginemen	....	44 50
Yard switching fuel	....	....
Water for yard locomotives	....	....
Other supplies for yard locomotives	....	33 41
Enginehouse expenses—Yard	....	....
Yard supplies and expenses	....	6 00
Operating joint yards and terminals—Dr.	10,788 37	11,627 48
Train enginemen	14,406 75	16,769 17
Train fuel	50,416 47	51,278 43
Water for train locomotives	22,331 48	28,170 99
Lubricants for train locomotives	56 47	81 57
Other supplies for train locomotives	28 94	44 54 *
Enginehouse expenses—Train	5,087 98	8,411 73
Trainmen	18,962 38	23,388 24
Train supplies and expenses	16,965 53	20,234 99
Operating sleeping cars	....	1,179 78
Drawbridge operation	327 43	116 36
Stationery and printing	550 53	683 95
Clearing wrecks	792 80	31 27
Loss and damage—Freight	217 24	304 15
Injuries to Persons	342 35	25 06
Total Transportation Rail Line	$ 190,944 52	$ 216,307 65
MISCELLANEOUS OPERATIONS		
Dining and buffet service	....	$ 1,863 89
Restaurants and Boarding Cars	14,007 13	16,402 45
Producing power sold	711 70	677 19
Total Miscellaneous Operations	$ 14,718 83	$ 18,943 53
GENERAL		
Salaries and expenses of general officers	$ 12,000 00	$ 12,000 00
Law Expenses	4 50	....
Pensions	13,340 58	14,580 54
Total General	$ 25,345 08	$ 26,580 54

* Loss.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MAY 28, 1946

WITNESSES:

Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, T.C.A.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

ROOM 268, House of Commons,

TUESDAY, 28 May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11.45 o'clock a.m. Mr. S. M. Clark in the Chair.

Members present: Messrs. Clark, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, Maybank, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid. 15.

In attendance: (Representing Trans-Canada Air Lines): Mr. H. J. Symington, C.M.G., K.C., President; Mr. W. F. English, Winnipeg, Vice-President; Mr. T. H. Cooper, Montreal, Comptroller; Mr. W. S. Thompson, Montreal, Director of Public Relations; (Representing G. A. Touche & Company, Auditors for T.C.A.), Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, O.B.E., Deputy Minister of Transport and a member of Board of Directors of T.C.A.

Hon. C. D. Howe, Minister of Reconstruction and Supply, was present and took part in the proceedings.

Mr. Symington read the Annual Report of Trans-Canada Air Lines for the calendar year 1945 and was questioned thereon.

At 1.00 o'clock p.m. the Committee adjourned to meet at 4 o'clock p.m.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

Members present: Messrs. Clark, Belzile, Bourget, Emmerson Gibson (*Comox-Alberni*), Harkness, Harris (Grey-Bruce), Hazen, Jackman, Kuhl, LaCroix, Maybank, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid. 17.

In attendance: the same officials as are named above.

Questioning of Mr. Symington continued.

On motion of Mr. Emmerson, it was

Resolved: That the Annual Report of Trans-Canada Air Lines for the calendar year 1945, and the Report of the Auditors in connection therewith, be adopted.

At 6 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

T. L. McEVOY,
Clerk of the Committee.

64666—1½

MINUTES OF EVIDENCE

House of Commons,
May 28, 1946.

The Sessional Committee on Railways and Shipping met this day at 11.45 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, have you all got copies of the report of Trans-Canada Air Lines? In the first place I would like to apologize for my not being here for the other meetings, but I just could not make it. I would also like to thank Mr. McCulloch for stepping into the breach. I tried to insist that he carry on, but he refused.

I believe, ordinarily, that we ask the head of T.C.A. to read his report. Mr. Symington is here, and if that is in order we will have him read his report; then we can have some discussion afterwards on the balance sheet and so on. Is that O.K.? Come forward, Mr. Symington.

I might say that this committee was scheduled to meet at 11.30, but the Indian Affairs committee were in here earlier and did not finish their business on time. Very well, Mr. Symington.

Mr. H. J. Symington, President, Trans-Canada Air Lines.

Mr. H. J. SYMINGTON, (President, Trans-Canada Air Lines,): The Board of Directors submit the Annual Report of Trans-Canada Air Lines for the calendar year 1945.

As a wartime air transport operator, T.C.A. served the nation until the day of final victory. The rapid transport of domestic passengers, mail and express contributed to the co-ordinated effort of Government, essential industry and the military forces.

Trans-Canada Air Lines has emerged from the war with its energies undiminished and with a full realization of its peacetime responsibilities as an organization of public service both at home and in the field of international air transport.

The Air Line's transition from war to peace has been accomplished without difficulty. Loads have remained heavy, although the more tranquil times have brought some reduction in volume of mail.

In 1945, the number of passengers carried increased by 17% and air express volume by 11%, while air mail volume declined by 8% as compared with last year. Passenger miles increased by 26% over 1944; air mail pound miles decreased 11%, and express pound miles decreased by 4%. Passenger traffic was limited only by the capacity of the Air Line's fleet.

At December 31, daily scheduled miles totalled 32,354, an increase of 6,090 miles per day or 23% as compared with December 31, 1944. During the year, 11,546,227 miles were flown, as compared with 10,034,805 miles in 1944, an increase of 1,511,422.

On February 1, T.C.A. completed a third daily transcontinental flight by extending an existing Montreal-Winnipeg operation through to Vancouver. On December 1, a beginning was made on a fourth such schedule with the inauguration of another flight between Vancouver and Lethbridge. Traffic has been more than sufficient to support these additional services.

Schedules were doubled on the Alberta inter-city route between Lethbridge, Calgary and Edmonton. Third and fourth flights were added coincidentally with the February and December increases in transcontinental service.

On August 1, the Air Line began a fourth daily flight between Montreal and Halifax and a second daily flight between Halifax and Sydney.

The company also increased its operational flexibility by flying an alternative Toronto-Winnipeg route through the United States when weather so required. This was the first implementation of the two Air Freedoms of innocent passage and non-traffic stops.

While operational expansion was on a modest scale during 1945, there was much preparation for the greater progress that is impending. Planning reached a new intensity as additional aircraft and manpower became available towards the end of the year. Training of new personnel was undertaken by all sections of the organization. Careful study was given to matters of such basic concern to Canada's aeronautical well-being as air line communications, navigational installations and hangar accommodation. Where action lay beyond the jurisdiction of the Air Line, recommendations were made to the appropriate authorities.

RESULT OF OPERATIONS

	1945	1944
Operating Revenues	$10,512,587	$ 9,192,522
Operating Expenses	$10,250,271	$ 8,948,388
	$ 262,316	$ 244,134
Income Charges and Interest on Capital Invested	$ 229,544	$ 236,725
Surplus	$ 32,772	$ 7,409

Operating revenues totalled $10,512,587, an increase of $1,320,065 or 14 per cent over the previous year. Passenger revenues increased $1,006,172 or 23 per cent; mail revenues increased $448,544 or 12 per cent; express revenues decreased $18,850 or 6 per cent; incidental revenues decreased $119,311 or 21 per cent. This latter account reflects the net revenue to the Company (after deducting the related expense) of sales and services and other incidental revenues. Passenger revenue contributed 52 per cent of total revenue. Mail revenue contributed 40 per cent of total revenue. The rate of compensation received by the Company from the Post Office for the carriage of air mail was 41·98 cents per plane mile flown, as compared with 42·03 cents in 1944; 42·90 cents in 1943; 45·57 cents in 1942; 48·16 cents in 1941 and 60 cents in 1940.

Operating expenses totalled $10,250,271, an increase of $1,301,883 or 15 per cent over the preceding year. Major expenditures involved the Company's extensive development and personnel training activities, the cost of increased traffic and services, rising material and labour costs and a heavy program of aircraft overhaul. Included in 1945 operating expenses, for example, are costs of $489,208, largely for the training of an increased number of flight personnel, made necessary by development of the Company's services.

After the payment of interest on the Company's capital, and other income charges, amounting to $229,544, the surplus for 1945 was $32,772.

PROPERTY AND EQUIPMENT

The Company's plant and equipment have been well maintained and are in good condition. T.C.A.'s fleet underwent a program of major overhaul to assure its continued high efficiency of performance. A reorganization of maintenance and overhaul practices was begun in anticipation of delivery of other aircraft types.

Flight equipment in service as of December 31, 1945, consisted of:—

11 Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horse-power.

14 Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horse-power.
3 Douglas DC-3 aircraft, equipped with two Wright Cyclone engines, each of 1,200 horse-power.

Proposed service extensions in Canada and the United States require an enlarged twin-engine fleet. Accordingly, the Company in 1945 negotiated for the acquisition of twenty-four military transport versions of the DC-3 aircraft and contracted for their conversion in Canada to commercial transport form. Three of these had been placed in service by the end of the year and the remainder will follow in 1946. Each of these aircraft has capacity for twenty-one passengers.

Construction of a T.C.A. forty-passenger aircraft proceeded in the factory of Canadair Ltd. at Montreal under close Company supervision. This is a major program of Canadian manufacture, intended to provide T.C.A. with the best in flight equipment. The airframe design, based on the Douglas DC-4M, incorporates important modifications made by T.C.A. engineers to meet Canadian conditions. Power will be provided by four liquid-cooled Rolls-Royce engines of British manufacture. Initial deliveries of this high-speed aircraft are anticipated in late 1946. It will fly on international and transcontinental services.

The Company, in 1945, procured more hangar accommodation at Winnipeg, its operations headquarters.

Moncton was established as a major aircraft maintenance base.

Additional space was obtained in the ramp building at La Guardia Airport, New York.

An experimental radar station was established at Winnipeg for the study of radar application to civil air operations. This was the first such project undertaken by a commercial air line.

ROUTES AND SERVICES

At December 31, 1945, Trans-Canada Air Lines was providing service—passenger, air mail and express—over domestic routes totalling 5,299 miles between the Atlantic and Pacific seaboards. This mileage was unchanged from 1944. The routes operated are as follows:—

	Miles
Halifax—Victoria (via Moncton and Toronto)	3,303
Halifax—Sydney	201
Halifax—Blissville	172
Moncton—St. John's, Newfoundland	751
New York—Toronto	365
Toronto—Windsor	206
Lethbridge—Edmonton	301
	5,299

Passenger Service

Revenue passengers carried by Trans-Canada Air Lines numbered 183,121 in 1945, as compared with 156,884 in 1944, an increase of 26,237 or 17 per cent. The average passenger journey was 579 miles, as compared with 538 miles in 1944. Passenger revenue per revenue passenger was $29.83 and per revenue passenger mile 5·15 cents, as compared with $28.41 and 5·28 cents respectively in 1944.

Air Mail Service

During the year, 3,429,232 pounds of mail were carried, as compared with 3,739,105 pounds in 1944. Mail revenue per plane mile on domestic services was 41·98 cents, as compared with 42·03 cents in 1944.

Air Express Service

Air express traffic continued its steady growth during 1945 and, as industrial reconversion proceeds, this trend is expected to continue. Pounds of air express increased from 856,016 in 1944 to 950,323 in 1945, but the average haul was shorter.

Airway Facilities

Although labour and materials remained in short supply during 1945, the Department of Transport continued its improvement of the runways, field facilities, airport lighting and navigational aids necessary for the growth of civil aviation in Canada.

PERSONNEL

Trans-Canada Air Lines' staff at December 31, 1945, numbered 3,272, as compared with 2,790 at the end of 1944. In engaging new personnel, it is the policy of the Company to employ only those who have seen military service. At the end of the year the number of employees who had served with the Armed Forces was 1,161.

Instruction of former R.C.A.F. pilots in the techniques of civil air transport was accelerated during the year. Eight classes were completed, comprising seventy-six men. The quality of these pilots is high and their acquisition, together with the supply of new aircraft, is rapidly making service extensions possible.

Training was similarly given to new radio operator, passenger agent and traffic personnel. The return of former male staff was reflected in a further decline in the proportion of female employees. At December 31, women comprised 23% of all T.C.A. personnel, as compared with 29% in 1944 and 35% in 1943.

SPECIAL ACTIVITIES

Canadian Government Trans-Atlantic Air Service

Throughout the year, Trans-Canada Air Lines continued operation of the Canadian Government Trans-Atlantic Air Service. Organized in 1943 for the swift transport of mail to and from Canada's Armed Forces Overseas and of priority passengers and freight, the Service performed these functions until war's end and then into the peace. Its nature remained an official one, with limited passenger capacity being largely reserved for those persons travelling on missions of national importance. Approximately 900,000 pounds of mail were transported during the year. Ownership of the Trans-Atlantic fleet still rested with the Canadian Government.

However, by the close of 1945, evolution towards a full commercial operation was well advanced, with the Service losing some of its specialized identity. Passenger tickets were being sold in conformity with prevailing rates. A ticket office had been opened in London, England. T.C.A. pursor-stewards were catering to passenger comfort over the Atlantic. A trans-Atlantic air express service had been inaugurated. The functions of piloting, aircraft maintenance, communications, flight control and navigation had been facilitated by the assignment of increased numbers of experienced T.C.A. personnel. Very high frequency ground radio installations for trans-Atlantic purposes had been completed in Eastern Canada and in Newfoundland. Loran, a modern navigational device, was employed for the first time by a non-military air service. Four more Lancaster aircraft were added to the trans-Atlantic fleet, bringing the complement to six. Of Canadian manufacture, they were built to Company's specifications and will shortly be utilized in schedule increases. Each of these aircraft has comfortable accommodation for ten passengers. This is sufficient

for the maintenance of an interim trans-Atlantic passenger service, pending delivery, late in 1946, of the first Canadian-built DC-4 M's. At that time, the Service is expected to assume full commercial form.

The route flown is one of approximately 3,000 miles between Montreal and Prestwick, Scotland. Trans-Canada Air Lines personnel had, at December 31, 1945, completed over five hundred trans-Atlantic crossings.

Work for British Overseas Airways

At Montreal, the Company's maintenance, servicing and conversion of the Liberator aircraft used by British Overseas Airways Corporation on the North Atlantic Return Ferry Service continued unabated. There were 780 employees engaged in this work at the year's end, as compared with 523 at December 31, 1944. The experience gained by this large staff will be of value in the future development of trans-oceanic operations.

Overhaul of Military Equipment

The contract with the Department of Munitions and Supply for the overhaul of military equipment at Winnipeg was completed early in 1945. For three years a large volume of R.C.A.F. engines, propellors, instruments and accessories passed through T.C.A.'s shops.

International Negotiations

T.C.A. personnel participated in the various international councils that, in 1945, sought to chart a constructive future for world aviation. As members of the various committees of the Provisional International Civil Aviation Organization and of the International Air Transport Association, they acquired a knowledge of the wider significance of air transport that will be of value in the healthy growth of T.C.A. No other air line in the world made a greater contribution to these international discussions. An indication of the high repute in which Canadian aviation is held throughout the world was seen in the choice of Canada as the temporary headquarters of both P.I.C.A.O. and I.A.T.A.

PROPOSED SERVICES

The Company is entering on a year of rapid expansion. The route mileage will probably be increased by at least 67 per cent in this one year and the establishment of the many new routes and frequencies will entail large expenditures for equipment and training of personnel. It may be that until patronage of these new services is built up over the next few years the Company will experience a difficult financial period.

Plans for new domestic services include: establishment in the spring of 1946 of a fourth daily transcontinental schedule; an operation between Winnipeg and Edmonton via Saskatoon as soon as airport facilities are adequate at the latter city; a shortened transcontinental service across the Great Lakes when airport and airway facilities are available; operations along the lower St. Lawrence, and direct flight between Edmonton and Vancouver. Other projected services are between Halifax and Boston and Port Arthur and Duluth.

It is anticipated that service over the Toronto-Chicago, Toronto-Cleveland and Victoria-Seattle routes will commence in 1946. The established Trans-Atlantic Service will assume full commercial identity and, with delivery of DC 4M aircraft, undertake large-scale operations. Scheduled service to the West Indies, South America and via the Pacific will follow in due course.

LEGISLATION

The Directors call attention to the fact that the legislation passed at the fall session of Parliament is a basic change in the structure of Trans-Canada Air Lines. Under the previous legislation, the postal rate varied with the

operating results of the Company, with a consequent large measure of control in the Post Office Department over the frequencies and times of operation. This method, while desirable during the early years of the Company, had become unsuited to the times if much-demanded expansions were to be made. Accordingly, a firm contract is to be made with the Post Office Department for carrying mail on a pound mile basis instead of on a mileage basis, removing on one hand the necessity of Post Office control of operations and on the other hand, removing the protection against deficits through increased mail rates. Only in this way could the Company properly direct its operations and expand in order to obtain the fullest measure of non-mail revenue and give a maximum of service to the users of the line.

THE STAFF

The Directors wish to record their appreciation of the loyal and efficient services of the officers and employees of the Company who, through their efforts, have earned for Trans-Canada Air Lines so creditable a reputation in the air transport industry. Their skill and enterprise, which enabled the Air Line to render high public service in time of war, are indicative of what may be expected in the future.

In the war now happily closed many of the Company's employees enlisted with the Armed Forces. They served with valour, bringing honour to themselves and their country, and the Directors record the Company's pride in their achievements and sacrifices. To the families of those who will not return they extend their deepest sympathy.

The CHAIRMAN: Gentlemen, I think ordinarily we have a general discussion before we go on to the financial statement. I would like to point out to this committee that the Hon. Mr. Howe and Mr. Symington have appointments tomorrow afternoon. As you know, there is an international conference at Montreal and while there will be no method used to curtail any discussion, yet, if we could complete our meetings so that these men and their staffs could get away, I know it would be appreciated.

Mr. JACKMAN: You mean, get away today, Mr. Chairman?

The CHAIRMAN: To-day, or by to-morrow noon.

Hon. Mr. HOWE: Tomorrow noon would be quite all right.

The CHAIRMAN: I do not want to curtail discussion, but with this air conference on they would like to get away, if possible.

Mr. JACKMAN: They are always busy people; we quite realize that. I wonder if Mr. Symington would like to say anything to us about the conference at Montreal, about the fifth freedom, and the decisions there having a general bearing on the policy of T.C.A.?

Mr. SYMINGTON: No decisions have been reached as yet. They are sitting in committees discussing various matters which will go back to the plenary session, the first plenary session being on Wednesday. There are the usual difficulties as at all international gatherings. Local and national ambitions, naturally play a part. You have a situation where one country in the world is so much more able to give air services than any other country, that in certain sections there is a tendency to fear domination by that country, and they naturally want protective clauses granting the fifth freedom.

The assembly did not go on record very definitely that they are in favour of, and consider a necessity, the adoption of multi-lateral conventions, which have been causing a great commotion, including the fifth freedom, subject to proper protection to the smaller lines of the various countries. It is around that phrase and that result of what is proper protection, that the result will depend. Whether the result will be reached at this conference or at the next

conference I am quite unable to say; but I doubt, in view of the many great questions involved and the many difficulties whether we will reach final conventions this year. But there will be displayed on the floor of the conference what the various nations consider to be the safeguards in order to achieve a multi-lateral convention.

The situation is almost identical with what it was at Chicago, where we tried for seven weeks, with as much ingenuity as we had, to suggest this solution or that solution. We got very close, but not quite there. We are doing the same thing here, and whether we will be successful or not, we certainly will be succesful in making progress; but whether we will achieve it, remains to be seen.

Mr. JACKMAN: Is Russia a member?

Mr. SYMINGTON: Russia is not a member, no.

Mr. JACKMAN: May I ask, without requesting you to give away Canada's hand: just what it is that we want for the development of air policy in Canada?

Mr. SYMINGTON: We are taking the position that we want nothing. Really, we consider ourselves the giver rather than the taker. We are quite content to have the full fifth freedom, provided there be an international body having power to check abuses and decide differences of opinion, and decide whether the fifth freedom should be limited in various circumstances. It is a little difficult to explain, perhaps, the whole situation; but the third and fourth freedoms are the traffic originating in countries through which a world route runs.

Naturally, each country, particularly the smaller countries in Europe, consider that they require the great bulk of the originating traffic in their own country. Once you introduce the fifth freedom which gives through lines the right to pick up, and thus decrease what is known as the third and fourth freedom traffic in those smaller countries, they naturally fear that the through line will dominate because of their money, their better planes and their better organization.

Naturally, as we put it, any policy which destroys or tends to destroy a national air line of any country is going to fail. Therefore, those who get the fifth freedom rights must recognize that principle and put in proper safeguards for the protection of national lines of those countries.

Mr. POULIOT: What is it that you said about freedoms?

Mr. SYMINGTON: Well, the original start of freedoms, Mr. Pouliot, was that there were two freedoms; first, the right to fly over a country but not to land, but just to fly over its air.

Freedom two was the right to land in order to take on gas or for measures of safety, but with no commercial or traffic right. They could not pick up or put down passengers.

Now, at Chicago, Canada got the third and fourth freedoms which meant this: let us say, a passenger gets on a Trans-Canada plane in Canada and he flies to Britain and on to the continent. We can take passengers from our own country to Britain as well as take them to their ultimate destination, say France. That is the third freedom.

Mr. POULIOT: Or to any other country?

Mr. SYMINGTON: Or to any other country, yes. Then, coming back to the fourth freedom, that would be that our plane could pick up passengers in Britain and bring them back to Canada. You could take on passengers originating in your own country, or coming to your country, but you could not take passengers between countries.

Now, the fifth freedom means, if it goes in, that our lines could run, let us say, from Canada to Rome. We could land at Great Britain and pick up passengers in Great Britain and take them to Paris, and pick up passengers from Great Britain and take them to Prague and to Rome, and so on.

Mr. Pouliot: That would be the full freedom?

Mr. Symington: There is still more than that; but the result of that is that the French line, for instance, would say: but you are going to feed your line out of the passengers that we would ordinarily carry between France and Prague, and we must have that traffic in order to allow our national air lines to operate. Czechoslovakia would say the same thing. Now, the question which arises is: how much restriction on the rate of that intermediate traffic can be put in order to get these countries to sign the right to pick up, at all?

Mr. Pouliot: It is a most difficult matter?

Mr. Symington: Yes, it is a most difficult matter; but on the other hand, you can see the desirability of bringing people closer together throughout the world. You start off with a full load from Canada, let us say; half of that load get off at Britain; another quarter of the load will get off at Paris, and you arrive with an empty plane. You cannot operate commercially that way, because it would be too expensive; so you have to find a reasonable meeting between those two difficulties.

Mr. Maybank: What is the nature of the safeguards that such nations as you mentioned, the smaller nations, propose?

Mr. Symington: There have been many propositions; the last one, or the one now being considered, is the right of those nations to compel the through route to charge a rate differential between two adjoining countries so as to give them some advantage in price as opposed to the big planes and the highly developed service.

Mr. Maybank: That would be, say, a through route operator picking up at an intermediate point and carrying to another intermediate point?

Mr. Symington: Yes just between the two countries.

Mr. Maybank: But picking up at an intermediate point, he would be required to charge a higher rate than the local rate would be.

Mr. Symington: If the local countries so elect. It is a permissive thing. This is only one method which is being considered. It is being objected to very strongly by the United States.

I would say, for instance, if I were running from here to Paris, and my rate was $375 through, that is all right; but if I picked up a passenger in London to go to Paris, and say the London fare was £5 for their local lines, they might insist that I charge £6 or as much as 5 or 10 per cent more in order to preserve to them a certain percentage of their own traffic. That is one test. That naturally raises the question of rates and there are many questions, you see. There have been many other solutions.

Mr. Maybank: One of the sort of safeguards they wish to introduce.

Mr. Harris: Would it affect the rates of a man transporting from this country?

Mr. Symington: No.

Mr. Pouliot: Would the American rate between New York and Paris or England be the same as the Canadian rate?

Mr. Symington: Practically the same, yes.

Mr. Maybank: Would it not tend, if you adopted that sort of thing, to change the rate from here to Paris.

Mr. Symington: No; your through rates are fixed, you see. Your through rate will be fixed.

Mr. Maybank: But will they not be fixed, taking into consideration that disability under which you would labour?

Mr. SYMINGTON: No, I do not think they would, as far as competition is concerned; it would be purely to prevent too much filling up, as opposed to the old theory that your capacity should be based upon your requirements to your ultimate point of destination.

Mr. NICHOLSON: But you will be obliged to charge a higher rate to Paris?

Mr. SYMINGTON: No. The suggestion is: that, if England—which would not do it—or any of the countries want to do it, they can say to the international people: we want a through line to charge from 5 to 10 per cent more—whatever the limit be adopted; it is not set and compulsory. This provision would be made as a similar suggestion to the imposition of that freight rate differential, disclosed in practice with the local lines. Does it hurt the through line? Then they can make their complaints to the international council who can look into it and they have the right to say: it is not necessary in this case.

Mr. REID: If the principle were adopted, would the same thing apply to planes flying from California to Alaska and dropping down in British Columbia?

Mr. SYMINGTON: Yes, it would apply to every international route. Canada could say, in that case, if a plane flew from California to British Columbia to Alaska: we are giving services on that route and it is not a very densely populated route. If you want to pick up our passengers you must charge 5 per cent more than the Canadian line on that route. But I am not suggesting for a moment that that is the test which will be applied. I was just asked for an example of what was meant, and I am not suggesting that that will be the test.

Mr. JACKMAN: I suppose this fifth freedom will give some of the smaller countries which are air conscious—take for example, Sweden—a chance to become a great air transport country?

Mr. SYMINGTON: Sweden, being at the perimeter and not at the middle, might benefit; but it might mean, also, that countries of smaller population are really, to some extent, living off other people's traffic.

Mr. JACKMAN: But on a competitive basis, the rate structure is entirely in the hands of the international body?

Mr. SYMINGTON: The present idea is that the operators fix their rates and that they be approved by P.I.C.A.O. Any state can object to the rates as being unreasonably high or unreasonably low.

Mr. JACKMAN: But only as to international rates?

Mr. SYMINGTON: Only as to international rates.

Mr. JACKMAN: For instance, if the United States were to subsidize transcontinental lines, we would have no control over their rates; it would not prevent Canadian people going to New York and flying from New York to California and there taking a train up to Vancouver?

Mr. SYMINGTON: There is no theory that I know of where any country could interfere with the domestic policies of another country.

Mr. JACKMAN: Are many of those lines owned by the various countries concerned, or are we about the only one?

Mr. SYMINGTON: I think the United States is about the only one that is not.

Mr. MAYBANK: It is definitely settled, is it, that all international rates are to be approved by the international board.

Mr. SYMINGTON: That will be part of the permanent multi-lateral, permanent convention that we are endeavouring to secure.

Mr. MAYBANK: There is pretty sound agreement on that point?

Mr. SYMINGTON: I cannot answer for them all, but for the vast majority I would say, yes.

Mr. Reid: The fact that United States planes might be subsidized would have a bearing upon their acquiescence or acceptance of a lower rate?

Mr. Symington: I suppose so. We are trying, in the convention, trying very hard to avoid subsidies; and all international operations must be kept separate, and the figures must all be filed with the international authorities so that they can see what subsidies there are, what they are actually, whether the rates are justified, or too low; and you cannot subsidize for the purpose of interfering with or obstructing competition. The information will all be passed to the international authorities in order that they may deal with abusive practices of that kind.

The Chairman: Are there any other questions?

Mr. Hazen: Speaking about rates: I understand that the cost of transportation from Vancouver to Victoria is $5; and that until recently—I do not know the date—you could get a return ticket for $7.50; but that recently—I do not know just how long ago—the return rate was fixed so that you had to pay the full fare of $10. I am informed also, that if a I got a ticket, if I bought a return ticket from Montreal to Victoria, I would get a reduced rate as far as Vancouver but I would have to pay the full rate from Vancouver to Victoria. And the people in Victoria, I am informed, regard this as being a discrimination.

I am informed, also, that the air distance both ways from Victoria to Vancouver is about 50 miles, and the return ticket costs $10; while the air distance from Winnipeg to Regina is about 300 miles, yet the return ticket is $16. Now, there seems to be a discrimination in rates there as well. Could you tell me why the rate, the return rate from Vancouver to Victoria was increased from $7.50 to $10? And could you tell me why there is no reduction as in the other cases?

Mr. Symington: I can tell you the whole story without any difficulty and it is one which I may say I objected to, but there it is.

Your statement or your information is wrong with respect to buying a ticket to Victoria. You pay the same mileage rate as you would if you bought to Vancouver. But if you go from Vancouver to Victoria, you would then have to pay a higher rate from Vancouver to Victoria, for that portion of the journey. The problem arose this way: the Canadian Pacific Air Lines, or their predecessors, had been running a boat service, a flying boat service between Vancouver and Victoria and had been charging—if my memory serves me right—about 11 cents a mile. But when Trans-Canada came into the picture, it was in a position to run to Victoria. They were flying land planes and landed at Patricia Bay, some distance north of Victoria, and they charged exactly the same mileage rate between Vancouver and Victoria as they did between any other points in Canada.

Then, the Canadian Pacific Air Lines discovered that equipment difficulties existed, and that the water was spoiling their planes, and there was erosion and so on, and that they had to change over to land planes. They produced evidence to the Air Transport Board that they could not afford to run that service at the 5 cent rate or the 5·29 cent rate that T.C.A. was running it for, and so they applied to fix the rate from Vancouver to Victoria at a rate which gave them a fair profit, or at least a reasonable profit. So then the question arose, naturally: can we survive or are we to be allowed—are T.C.A. to be allowed—to charge a less local rate than we are; and it is destroying our business, and we do not think that is fair. When they were in that position, that is, Canadian Pacific Air Lines, they go before the Transport Board and the Transport board go into it and say: it cannot be run at the Trans-Canada rate, and therefore it must be raised, and Trans-Canada, on the local business, must also raise it. That is the story.

Mr. GIBSON: But you were not prepared to give an adequate service between Victoria and Vancouver?

Mr. SYMINGTON: We were not prepared to run all our flights at that time; we naturally could not give them 10 or 11 flights a day that the Canadian Pacific Air Lines could; we could give them 4 a day. Naturally, I do not like to see any differences in mileage rates throughout Canada. Personally, I think I have been through too much of that kind of thing in other directions.

Mr. GIBSON: After all, the cost of selling a ticket and the cost of servicing back and forth from the airport would mean something?

Mr. SYMINGTON: That is exactly what the Air Transport Board found; they found that we, who were running over all, could do it, but that the local line could not.

Mr. HAZEN: The Air Transport Board made this finding, you say?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Under what Act does that board come?

Mr. SYMINGTON: The Aeronautics Act.

Mr. HAZEN: The Aeronautics Act; but it was taken away from the Air Transport Board?

Mr. NICHOLSON: Was there not a period when you were not allowed to carry local passengers between Vancouver and Victoria?

Mr. SYMINGTON: Yes, but we got over that difficulty.

Mr. NICHOLSON: How long have you been allowed to sell local tickets between Vancouver and Victoria?

Mr. SYMINGTON: I think this is the second or third year now.

Hon. Mr. HOWE: There is quite a principle involved there, Mr. Gibson. To put one's finger on the crux of the situation: there is a great amount of traffic between Vancouver and Victoria and the Canadian Pacific Air Lines ran 11 flights a day; but Trans-Canada was not in a position to run more than 4 flights a day, and all the seats, however, were not available for local traffic. It was not felt to be desirable that Trans-Canada should, with its earnings made over a 5,000 miles of operation, put the Canadian Pacific Air Lines out of business by quoting a rate which would not have permitted Canadian Pacific Air Lines to function. There is no doubt that the service required a greater frequency of planes there, and it seemed to the Air Transport Board—at least in my own judgment—that T.C.A. should not do anything to destroy a service like that unless it could put on a service to replace it. The same situation arises in the Halifax to Boston run. The Maritime Central Air Lines operates between Yarmouth and Halifax. It is desirable, in the interests of public service, probably, that T.C.A. will put in a stop at Yarmouth to pick up passengers for Boston, and naturally they wish to carry passengers between Halifax and Yarmouth. The question will arise: can they put in for a rate of 5 cents in a position where the Maritime Central rate is perhaps double that amount, which rate is perhaps quite correct for a short service. The ruling will probably be the same: that T.C.A. must not charge a rate which would be hurtful to the local run.

Mr. HAZEN: Might I bring up another matter now. I would like to ask the President of T.C.A. what is the present position in regard to the proposed Clover Valley air field that was to be developed to serve the city of Saint John and vicinity? I would like to point out that on March 30th, I think it was, 1943, when this committee was sitting, the honourable Mr. Howe said: that if we, the T.C.A., can get a suitable airport within 20 miles of Saint John, I assure you we will go in.

Now, the city of Saint John employed a gentleman, whom I understand was a noted United States airport authority, named Harvey F. Law, to look over

the situation. Mr. Law went down there and he looked it over and he recommended as a suitable site a place called Clover Valley, situated on the main highway within 10 miles of Saint John.

In the next year, 1944, as a result of representations made by Mr. Howe, the municipality of Saint John went ahead with the Clover Valley air field project. It obtained the necessary legislation from the legislature of the province of New Brunswick and it acquired the land, and it spent about $100,000 or over $100,000 in acquiring the land, and for other services; and it also committed itself to another $50,000 or more in connection with this project.

On July 3rd of last year, the county secretary of the municipality of Saint John wrote to Ottawa advising that all the land required had been obtained, and that it was now in order for the departmental engineer to start work. In reply to that letter, the county secretary received a letter from Mr. A. D. McLean, Controller of Civilian Aviation, dated July 13, 1945. In that letter Mr. McLean said: that due to the lateness of the season, it is unlikely that it will be possible to undertake any heavy construction work on the project this year, but that an attempt will be made, however, to start clearing and to undertake such work as will be necessary in order to enable construction work to be started immediately in the spring of 1946.

Now, no clearing or other work was done in 1945. In January of this year, on January 25th of this year, a delegation representing this municipal airport committee from Saint John came to Ottawa and, accompanied by the honourable H. F. G. Bridges, the Minister of Fisheries, met the honourable Mr. Howe and some of his officials. The purpose of the visit, as I understand it, was to learn when construction work would begin and also what the next step by the municipality should be and the next step by the Dominion government.

The delegation, I am informed, was told: that an answer to the questions they asked would be furnished to them within three or four weeks. And a few weeks later, or a short time later, the committee received from Ottawa word that the site was not available because weather conditions were unsuitable.

I would point out that in 1944 and 1945—perhaps to go back as far as 1943—nothing was ever said about weather conditions; and, as I read the correspondence, the municipality was given the green light sign to go ahead.

The mayor of the city of Saint John said in his report to the municipal council, in February of last year, that the project was approved in August, 1945, by the heads of civil aviation in Canada. The committee of the municipality that had this matter in hand, I am informed, requested the data about the weather conditions. They claim that the site is a suitable one, and they have the support of Mr. Harvey F. Law, in their contentions. What I would like to know is: what is the present position of affairs? Are further investigations as to weather conditions to be carried on, or is the matter a closed book, so far as the government is concerned? That is, I think, the real sum and substance of what I would like to find out. Has the whole thing been killed? Does the municipality have to face the fact that it has gone to this extent, so far as T.C.A. is concerned?

Mr. Symington: I am here as operating head of T.C.A. I know nothing about what you just said, about the remarks you just made. I could not answer you at all. All that I do is to run the air fields that are provided, and I know nothing about it, Mr. Hazen; I know nothing about it at all. You will have to go to the government.

Mr. Hazen: Well, here I am. Maybe the Hon. Mr. Howe would care to say something on the matter?

Hon. Mr. Howe: Yes. It is rather unfortunate, that story about the city of Saint John, as you said, employing an engineer to lay out an airport, to choose a site and lay it out for an airport. The plans of the project were

approved, but nothing was said about weather at that time. And on the strength of the approval of the officers, I told Saint John to go ahead and acquire the land. In the meantime, the meteorological department lost no time in stationing two men at the airport to study the weather; and when the delegation came to Ottawa to discuss the commencement of operations, these weather reports were all in, reports covering, I think a year of observation. They showed that the weather would permit use of the air field only to a very limited extent. It was very subject to ground fogs, and on certain days the airport would not be usable by T.C.A. planes. The ratio of operation was far worse than anything we had on the line, and it seemed to me to be folly to undertake construction of an airport with weather reports on hand of that type.

On behalf of the government, I accept full responsibility for having instructed the city to go ahead and acquire the land, and I undertook that the government would bear any loss that might arise, if the land is disposed of. I imagine the loss would not be serious, in view of the present real estate market. But, if there be a loss, the federal government will make it good to those who suffered such a loss.

The city was not satisfied to accept our report, so the department agreed to carry on a further study. But, if the report of the next year shows no improvement in the weather situation as far as the use of the field is concerned, I would say that the city of Saint John, which would be responsible for the cost of operation, would be foolish to go ahead with the project.

Mr. HAZEN: Who carried on those investigations, or are they being carried on now?

Hon. Mr. HOWE: I cannot tell you the actual names of the people, but I could get them if I had my notes.

Mr. HAZEN: Who is doing that work?

Hon. Mr. HOWE: The Meteorological Service of Canada.

Mr. HAZEN: And they report to whom?

Hon. Mr. HOWE: They report to the director of the service in Toronto, and he, in turn, reports to the deputy minister of Transport, who, in turn, reports to me.

Mr. HAZEN: And they are now carrying on an investigation that will extend over a year?

Hon. Mr. HOWE: The investigation that was reported upon had extended over a year; but they are now continuing an investigation; they are giving it a two-year study rather than a single-year study.

Mr. HAZEN: Was the municipality of Saint John furnished with a copy of that report?

Hon. Mr. HOWE: I cannot say, but I will be glad to find out for you. I have no doubt that the director of civil aviation would furnish them with a copy of the report.

Mr. HAZEN: Thank you?

Mr. HARRIS: With respect to the Vancouver-Victoria run, how many times in the past has the board decided similarly? Every time that T.C.A. is given an opportunity to run in competition with another line, is the rate set on the basis of the rates established by the local run?

Hon. Mr. HOWE: I would say yes. This is the first occasion that the T.C.A. has come into direct competition with a well established line, over the years, giving the necessary service; and I think a reasonable interpretation of the air regulations would indicate that a local service should be protected just as Mr. Symington suggested be international services.

If there be an international service between two points—take for example the service between Montreal and New York—if there were complete freedom on the part of any one to poach on that line, it is conceivable that there would be so many international flights operating on that line that the local service would be put out of business, which would be very unfortunate for the people of Montreal, should the Trans-Atlantic service stop operations.

Mr. Reid: What percentage of traffic would be carried on planes between Victoria and Vancouver whose destination would be Vancouver compared to those getting on the planes at Victoria and heading east?

Mr. Symington: I could not tell you that; perhaps Mr. English could tell us. I cannot give you the percentage but it would be quite a lot.

Mr. Gibson: I understand that you used to sell tickets from Lethbridge and give a rebate?

Mr. Symington: Yes, we used to sell tickets from Lethbridge and give a rebate, but that was before we were able to carry on there at all.

Mr. English: We carry an average of 60 per cent occupancy on the Vancouver-Victoria service. Our planes are 60 per cent filled; and of that 60 per cent, approximately 25 per cent is through traffic.

Mr. Reid: In other words, you are adding to your revenue by picking up local traffic?

Mr. English: Yes.

Mr. Reid: I know that most bus lines running between the United States and Canada will not pick up local traffic because they are through bus lines?

Mr. Symington: Well, they are not allowed to do so, Mr. Reid.

Mr. Harris: I do not want to rush things at all: I am only concerned with one sentence in this report under the heading of "proposed services", where you say:—

> It may be that until patronage of these new services is built up over the next few years the company will experience a difficult financial period.

Mr. Symington: I thought it well to call the attention of the committee to that fact: I am hopeful that it is pessimistic and I think it is pessimistic; but after all, you must remember that we have been starved and the people of Canada have been starved for air transportation because of the fact that we did not have, and just could not get, either the planes or the personnel or the ground facilities. And when you undertake to do something, to make up for a past shortage, and when you have to act very quickly—if you wanted the planes at all—I bought these 21 planes—really 24 planes—all in one gulp, because we had to take them so or not get them at all. Everybody in the world was after them: and they have got to be used. And we trained personnel; we spent over $1,000,000 in training personnel and they have to be used.

Now, as to how quickly the people will want to travel, I do not know. We are going to put on these services; we have got the planes, and we have got the personnel to run them. Now, it may be, that for three months or six months—it will take us a while to fill up that capacity, in which case, of course, the financial side may be difficult. That is all.

Mr. Harris: You have got the money to buy the planes.

Mr. Symington: Oh yes, we are in a very good position, as you will see, if you will look at the diagram on page 11. Remember that up to this stage and up to all that increased equipment, we never increased our capital, and we have still got all our old planes. We have done pretty well and in addition, we have got $1,500,000 in cash and we have got an insurance fund of $1,200,000;

and we have got a pension fund of $1,000,000 or more than $1,000,000; and we have paid 5 per cent on the money all that time it has been in T.C.A. I may tell you that foreign air lines wonder how we do it.

Mr. McCulloch: Can a passenger go from Montreal to Vancouver via New York cheaper than he could from Montreal to Vancouver?

Mr. Symington: No. He might do so, he might be able to travel from Vancouver to New York much cheaper than from Vancouver to Montreal to New York. That is a matter which you cannot always just prove. Their system of tariffs is a little different from ours. They have no air travel cards and no return discount. Their mileage rate single is a little lower than ours. On the other hand, we have a reduction for air travel cards, and we have a ten per cent return fare reduction; so there is not very much difference.

Mr. Harkness: I think there is quite a difference. The United Air Lines rate from Vancouver to New York is $118.30 while your rate is $152.50.

Mr. Symington: You mean our single rate?

Mr. Harkness: Yes. There is quite a considerable difference there?

Mr. Symington: Yes, there is quite a considerable difference on the single rate; but on the return rate, there is not a great deal of difference, and, of course, mind you we may have to meet that rate if we find we cannot get the traffic; but we are still, for some reason or other, getting a great deal of American traffic on our lines. They say that they prefer to travel that way.

Mr. Harris: You have a better line. The answer is obvious.

Mr. Jackman: Does the same principle that applies in the railroad passenger business creep in with respect to air lines, whereby you can travel from Boston to Montreal to Toronto as cheaply, a further distance—that is, you pay as cheaply—as you can from Boston to Toronto?

Mr. Symington: Not yet; it has not, and I hope it will not.

Mr. Jackman: May I ask in connection with the Vancouver to Victoria air route, the rate is about 10 cents per mile, while it was about 5 cents last year. Do you have a similar discrepancy for any other approximately 50 mile route in Canada?

Mr. Symington: That is the only place where we charge over 5.15 cents per mile. You have to meet those circumstances.

Mr. Jackman: Why is it that the return rate from Victoria to Vancouver is on the same mileage basis cost as the straight single fare?

Mr. Symington: Because the Air Transport Board has put in the rate.

Mr. Jackman: Is it not customary to grant some discount for a return fare?

Mr. Symington: That was fixed on the basis of giving to Canadian Pacific Air Lines a reasonable profit; and not on what we wanted to charge.

Mr. Jackman: I wonder why they did not charge more for a single rate?

Mr. Symington: I do not know; it was not our business.

Mr. Pouliot: What is the basis?

Mr. Symington: 10 per cent; am I right?

Mr. English: Yes.

Mr. Hazen: I notice that you carried 183,121 passengers for a revenue in 1945?

Mr. Symington: Yes.

Mr. Hazen: Did you carry many passengers free?

Mr. Symington: We carried between points 3,393 people which number was made up of T.C. employees on business, 2,163; T.C.A. dependents, and

employees on vacation, 733; employees of Department of Transport on business, 348; courtesy trips to press, Canadian Broadcasting Corporation, and so on, 70; employees of Post Office Department on business relating to air mail service, 43; employees of other air lines, 10; and others, consisting of inspectors, Department of Commerce, Air Transport Board, R.A.F., and deportees, 17.

Mr. HAZEN: Were any passengers injured while being carried?

Mr. SYMINGTON: No.

Mr. HAZEN: Was any damage done to equipment during the year.

Mr. SYMINGTON: Yes.

Mr. HAZEN: What equipment suffered damage as a result of accidents?

Mr. SYMINGTON: We had a crash landing at Moncton, when two of our employees were taking a plane up for instruction purposes, and there was $41,777 written off, the value of the plane which was actually destroyed. It got about 100 feet off the ground and then nose dived.

At Lethbridge a plane landing struck a truck. At Lethbridge unfortunately, the road is very close to one of the runways which is only used very seldom. It depends on the direction of the wind; and there was a truck with high boards with some grain in it. The runway being short and the wind being bad, the pilot had to take the full length of the runway, and whether it was the rain or whatever it was, he did not see the truck. The wheels of the plane struck the top of the high boards carrying grain. He really made a remarkable recovery and landed on his belly. Ultimately it was $11,502 damage done to the plane.

At Dorval on March 15th, in the ice, they taxied off the runway off to the side, and one wing went into the snow. It did $8,534 damage to the plane. The same thing occurred at Lethbridge, at a cost of $6,000. Then at Blissville there was a forced or belly landing at a cost of $5,759.

Mr. NICHOLSON: Were any passengers injured in any of these accidents?

Mr. SYMINGTON: No. As a matter of fact, I received a letter from a gentleman in San Francisco who was in the Lethbridge accident. He said: I do not suppose you very often get letters of praise from a passenger who has been in an accident; but in connection with the plane which struck the truck, he told me how the pilot managed to get the plane up into the air and how they circled around; and how the stewardess came and talked to them and told them how it happened, and assured them that belly landings were very easy in this snowy country; and that he never saw anything so well handled; and that they landed on their belly, getting no more than a slight tug of their harness.

Mr. POULIOT: There are no more priorities?

Mr. SYMINGTON: There are no more priorities.

Mr. POULIOT: Have you considered the question of passes to members of parliament?

Mr. SYMINGTON: It was discussed in parliament several times, I believe, but we have not got them. It would be pretty tough, I think, certainly until we get a lot more equipment.

Mr. POULIOT: How many passes are issued yearly?

Mr. SYMINGTON: I think about ten, and they have to pass the Air Transport Board. There are: the directors; the minister; the postmaster-general; I think, Mr. Henry himself, as head of the board; but that is all.

Mr. POULIOT: Well, that is a start.

Mr. HARRIS: You are willing to accept the inevitable?

Mr. REID: I would like to say for the benefit of the committee, that history is repeating itself. Everytime there is a conflict with the Canadian Pacific, they always get their way.

Mr. SYMINGTON: I am glad that I cannot be blamed for that.

Mr. JACKMAN: You draw attention to the route between Toronto and Winnipeg.

Mr. SYMINGTON: Yes, sir.

Mr. JACKMAN: How is that progressing?

Mr. SYMINGTON: Well, it is very difficult; but not so difficult from our point of view, because we are ready; but the air field proposition is difficult. We have approached and conducted conversations and very favourable ones with the United States whereby we can use an emergency landing in the northern peninsula of Michigan, and thus get into that service quicker than we otherwise could. I am extremely hopeful and most anxious that that may be established as soon as possible because it would be a very great help to Canada.

Mr. NICHOLSON: How soon is it possible?

Mr. SYMINGTON: You had better ask the honourable Mr. Howe that question. There was a difficult situation there with respect to an emergency landing, landing on an island in a lake, and we could not get boats to it in order to build an emergency landing; it would have been a terribly expensive proposition. Therefore we are making this other arrangement in order to put the service into being.

Mr. JACKMAN: Which is that?

Mr. SYMINGTON: So that we may have an emergency landing field rather than having to land in Lake Superior; we will have an emergency landing field in American territory.

Mr. JACKMAN: That is the route over Lake Superior that you are speaking about now?

Mr. SYMINGTON: It is not a regular landing, but we won't run that flight without some place to go in an emergency.

The CHAIRMAN: It is now one o'clock and can we meet again at four? We have trouble with five or six committees sitting, but I think perhaps we can make some arrangements to get this room by 4 o'clock. Very well, gentlemen, the committee is now adjourned to meet again at 4 o'clock in this same room.

The committee adjourned at 1.05 p.m. to meet again at 4.00 p.m. to-day.

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we discussed Mr. Symington's report this morning. Do you want to discuss it any further before we go to the financial statement?

Mr. HARKNESS: The question of rates was brought up to some extent this morning. It seems to me that the rates charged by T.C.A. impose a sort of undue burden on the Canadian public which travels by air as compared with the United States. It was pointed out that return fares are fairly comparable, but as far as I can make out they are not very comparable. I have two examples here. From Vancouver to Toronto by United Air Lines the fare is $111 and by T.C.A. it is $132.35.

Mr. NICHOLSON: Is it $111 in American funds?

Mr. HARKNESS: No, it is in Canadian funds.

Mr. SYMINGTON: No, American funds.

Mr. NICHOLSON: They are all in American funds.

Mr. SYMINGTON: You have got 11 per cent on that, and on the return fare 10 per cent off on ours.

Mr. HARKNESS: I just got this figure, and I took it it was in Canadian funds.

Mr. SYMINGTON: No, it is not, and if you deduct 15 per cent for a travel card, and 10 per cent for return I think you will find we are away below on the return fare.

Mr. HARKNESS: I think you said this morning that on the return fare it was 10 per cent?

Mr. SYMINGTON: 10 per cent and 15 per cent off for a travel card.

Mr. HARKNESS: But everybody has not got a travel card.

Mr. SYMINGTON: That is perfectly true. I quite agree, but the numbers are increasing very fast, and a large part of our patrons has travel cards.

Mr. HARKNESS: In view of the fact that salaries, wages, and so forth are generally considerably higher in the United States than they are in Canada it would seem to me that our rates should be lower than the United States rates.

Mr. SYMINGTON: I am very glad you raised that point because I should like this committee to understand the difficulties that we are up against in operating air lines in this country. I have had a statement taken off. In the year 1945 if we had been able to buy gasoline in Canada at the price which I have here in the United States we would have made $480,000 more. If we had not been subject to extra operating costs by reason of duty, sales tax and war exchange tax we would have made $990,000 more. In other words, we would have made $1,470,000 more or 35 per cent of our capital if we were not subject to those drawbacks and disadvantages. I do not know anything you can do about it. I am not blaming the oil companies. I have taken it up with them and the answer is that they say it is a fact that under the Canadian layout they have refineries all over the country and that the expense is in the railroad cost for crude oil to bring it into the country to get it there but, as a matter of fact, our gasoline costs in Canada are just about 100 per cent more than if we bought it in the United States. They, of course, are fed by pipelines from their various fields whereas we have got to import and move it across the country as crude oil.

Then again of course, the operating conditions in this country are very severe. One example is in the conversion of these planes, the extra heating system and the necessary power plant to create that.

Mr. HARKNESS: You have that same thing on the northern United States lines?

Mr. SYMINGTON: No, not by any manner of means. Not by any manner of means are they anything like as severe. There is the extra cost of heating, probably $20,000 a plane, and depreciated over four years there is that much more to depreciate. You bring in a plane and by the time you pay the duty and sales tax—fortunately now it has improved because the war exchange tax has gone off as of last November—last year a plane that would have cost us in San Diego $675,000 would have cost us here with the duty, tax, war exchange tax and the necessary changes that had to be made $1,180,000 as opposed to their $675,000. When you divide that by four, where you are depreciating your planes in four years under these very rapidly changing conditions, that becomes an annual operating cost. The same thing applies with respect to your spare parts and repair parts so that the three largest items of operating expense in this country are away over what they are in the United States.

Then you have got a situation where our range here is very large. We have 3,500 miles in width and probably 100 miles in depth. Over there with their thousands of small manufacturing plants situated all over the country you have a checker board north and south. They can divert all around the place when they are weather-bound. They are not stuck at Kapuskasing or

Armstrong or some place else all of which cost a great deal of money to a line. I am not complaining about it because in spite of it all our results are better than any United States line in my judgment.

Mr. HARKNESS: What do you mean by "results"?

Mr. SYMINGTON: In the actual earnings. I think that what the members must recognize is that we are up against very serious operating difficulties in this country, and as their efficiency increases our advantage on our efficiency and less expensive operation in any other way decreases. In other words, if you compare controllable costs in Canada with theirs we are away below them. As to operating costs, direct costs, we are, of course, above them, and we just cannot help it. It is a situation that is impossible to meet. The best thing you can do is go along. We are able to do it because we have a very devoted and capable lot of people who up to this moment—and there is no guarantee that it will continue—are willing to work for cheaper wages than they do in the United States. The pilots have stayed firm although they are now trying to strike in the United States for salaries that are nearly double ours. I do not know how long our men will stand by us as firmly as they have. Nearly all our top people can get jobs with twice the salaries if they want to leave T.C.A., but it is part of their birthright and they are sticking. That is a fact that we have got to face, and there is no use fooling ourselves about it. We can face it. I am satisfied we will continue to face it successfully, but it is a real job.

Mr. HARKNESS: Whilst I realize that your gasoline costs, and so forth, are considerably higher than the United States you have certain compensating advantages which the American lines have not got. For example, you have no competition which all American lines have. You have no taxes. You have a very much higher rate on mail than the American lines receive. I should think that those three compensating advantages would to a considerable extent offset your higher costs for gasoline and so forth.

Mr. SYMINGTON: I think you have spoken a little broadly as to those advantages. In the first place, we have real competition now in the sense that from Vancouver, Lethbridge, Winnipeg, Montreal and Moncton we are actually running in complete and continuous competition with the American air lines across the continent. They can and do reach all these points so that we are, in fact, in actual competition with them. Locally we are not. I agree we are not between Regina and Winnipeg, but we are between Regina and Toronto or Regina and New York or Regina and Windsor because from Winnipeg they can take those lines. They can travel our lines locally, go down the other way and go right across the continent. I am glad it is there. It is a very good thing but on the other hand when you talk about mail, my goodness, when you look at the mail carriage in the United States compared to ours and the comparison of rates the situation is not comparable. Do not forget this—and this is what most people do not realize—under actual statutory authority in the United States mail rates are fixed by C.A.B., and they are fixed under a statute whereby they are made sufficient to provide cost and reasonable profit to the line. So that while it is perfectly true that on the tremendous big lines the air mail rates are below ours there are dozens and dozens of smaller lines which are away above ours. I agree that the average is below ours because most of the mail travels on the three big distributing lines across the United States.

Mr. HARKNESS: Those are really the transcontinental lines which are comparable to T.C.A.?

Mr. SYMINGTON: If you would compare the carriage of mail across the United States and across Canada we have about six places where we deliver, only one with a population over a million and two or three-quarters of a million, the rest being a couple of hundred thousand and going down to fifty thousand whereas

across the United States there are hundreds and hundreds of cities of 100,000, 150,000, 200,000, that lend themselves to the operation because you put on and take off. The result is you can take a great pay load for a short range, but we have got to load a plane to go 1,500 miles in case anything goes wrong because we have not got these places in between. As I say, I am not apologizing for the operation. I am extremely proud of it, but I do want the committee to recognize the differences in the character of the operation in Canada and the United States because as an actual flexible operation there is no comparison. They are so far ahead of us from natural conditions.

Mr. NICHOLSON: I would like to support what Mr. Symington has said. I left Regina last January one morning when it was 40 below zero in Regina and later on that day I reached Los Angeles by Western Air Lines where it was about 58 above. The physical problem of servicing equipment to operate in 40 below is a very different problem from what it is to operate a plane in summer weather all the year round. In connection with the rates question which has been raised I have the United Air Lines booklet here, and they give the single fare from Vancouver to New York as $118.30 or New York to Vancouver at the same rate. If you add 11 per cent, which they do when you take a plane over the American lines, it gives you a round trip for $262 via United Air Lines as compared with a round trip for $260 by T.C.A., so that actually you are $2 further ahead to travel by T.C.A. between those two points. If you buy a single fare it is a little cheaper to travel by United Air Lines.

Mr. HARKNESS: Did you take in the travel card on those figures?

Mr. NICHOLSON: No, that is without the travel card.

Mr. JACKMAN: Mr. Symington, ordinary gasoline for motor cars does not cost 100 per cent more in this country?

Mr. SYMINGTON: We are learning quite a lot about these things, Mr. Jackman; but we have got the actual figures because we have been comparing rates of these new operators in the States; and the figures—I have them here.

Mr. JACKMAN: I don't doubt you have them, if you say so, but I was wondering what the justification was for aviation gasoline costing so much more here than there.

Mr. SYMINGTON: I think the reason is that these very large companies make special deals with one company and get a very low rate in doing so. We do not. We buy from the different companies that are available to the fields. An odd thing happened in comparing these American and Canadian north trans-Atlantic rates and trying to arrive at a basis. We found that the American lines had Greenland and Iceland and were buying gasoline several cents a gallon cheaper than we were buying it in Montreal. The answer was, of course, that the army had put stuff in there and I guess they were getting it cheap; but the savings in the case of gasoline, in the returns made by the various companies, were really considerable.

Mr. JACKMAN: Is there any way of having these figures made available?

Mr. SYMINGTON: I have them available, but as they were given to me in a conference which had nothing to do with this, I do not know that I should disclose them. But I am giving you what is the fact because we have been studying very, very carefully the various lines and the costs in arriving at the North Atlantic rate.

Mr. JACKMAN: In view of the whole situation does it not seem unreasonable that we should be paying so much more for gas than the Americans do?

Mr. SYMINGTON: I did not say it was reasonable or unreasonable. As I said, I am not saying anything by way of complaint, I am merely pointing out to you some of the difficulties under which we labour.

Mr. JACKMAN: That cost of planes in the United States as compared to Canada is not only considerable, but shocking.

Mr. SYMINGTON: Well, you see, you take the original cost in American money and upon that you add your duty and take your sales tax on exchange plus duty, and then you take your war exchange tax on exchange plus duty plus sales tax, and the percentage on top of that.

Mr. JACKMAN: I suppose if you were in a private company you would have something to say about the duty of aircraft coming into Canada.

Mr. SYMINGTON: I do not want to get into politics, but I would have a lot to say about duties on things coming into Canada—if I were a free agent.

Mr. GIBSON: You ought to put that in your tax column.

Mr. NICHOLSON: In the first page of your report you mentioned alternative routes between Toronto and Winnipeg. Could you indicate how frequently per month you are required to do that?

Mr. SYMINGTON: Our bad season is the mid-fall and early spring for the northern Ontario region. Their seems to be a warm wind which blows up from the western United States all across that cold, watery Lake Superior region, and that lake region that lies north of it, which gives rise to this ground fog and makes operation very difficult. The result is that during these periods we fly as many as ten or twelve times a month between Minneapolis and Windsor in order to maintain our schedule. And now, with respect to finished schedules, in the absolute winter we are higher and better than any American line, and in the summer we are better; in these two periods we are less. Over the whole year at the same time our performance is better than any of them. But we do have the same assistance as they have. They come over us very often, across the Niagara Peninsula, and so on, and into Moncton. They have the same right under the two-freedoms agreement.

Mr. NICHOLSON: Does it cost you appreciably more to do that?

Mr. SYMINGTON: A little more, but very little more. Certainly it is a money maker for us because the absolute cancellation of the trip or the holding of people at Kapuskasing or some place is an expensive proposition.

Mr. NICHOLSON: How about the time factor?

Mr. SYMINGTON: The time factor is of very little importance, very little more; it is only about fifty or sixty or a hundred miles.

Mr. JACKMAN: On these costs which you gave us for planes in Canada and the States; are they about commensurate with the cost of making planes in Canada, is the cost about the same?

Mr. SYMINGTON: We will tell you that in another six months, perhaps.

Mr. JACKMAN: Who is this Canadair that I see you mention in your report, who owns that?

Mr. SYMINGTON: Canadair is owned, I understand, by the Dominion Government.

Mr. JACKMAN: So we are now engaged in the manufacture of planes?

Mr. SYMINGTON: We are now engaged in a very important, very marvellous job of making planes, we hope; at any rate now we are taking our medicine in the hope of being able to manufacture planes in Canada in the future, both for military and civilian purposes.

Mr. JACKMAN: Since the minister is here, perhaps I might ask him how we have come to acquire Canadair?

Hon. Mr. HOWE: We have always owned it, we built it.

Mr. JACKMAN: The report says that you acquired it from Vickers, they operated it during the war.

Hon. Mr. Howe: They operated it during the war. We owned the plant.

Mr. Jackman: Crown assets?

Hon. Mr. Howe: Yes.

Mr. Jackman: We took the operation of it over from Vickers through Crown Assets, is that it?

Hon. Mr. Howe: Before that Vickers were involved but they found their financing requirement would be very heavy. We took it over by mutual consent. They were financing it as part of their ship-building operation, and the amounts of money in it were so large that they worried us to get it right down, so we accepted the operation. There was no change in fact, they had the management contract and now Canadair have taken over the management contract.

Mr. Jackman: And Canadair is a crown owned company?

Hon. Mr. Howe: Canadair itself is not crown owned, the facilities are. Canadair is the management company with the same management as managed the plant for Vickers; instead of having it mixed up with Vickers operations they requested us to separate it and we entered into a management contract for its operation with Canadair.

Mr. Jackman: But Canadair owns no physical assets, it merely leases them?

Hon. Mr. Howe: No, they are not leased to them they simply manage the property for a fee; it is a contract, that is what it amounts to.

Mr. Jackman: The fee is based on cost, is that it?

Hon. Mr. Howe: Yes.

Mr. Hazen: How long has that been in operation?

Hon. Mr. Howe: For three years perhaps.

Mr. Hazen: Is that based on each year's operation?

Hon. Mr. Howe: It is difficult to make a cut-off each year because the contracts overlap, but we think we are doing a very good job and getting served at very reasonable cost.

Mr. Hazen: Have you any figures?

Hon. Mr. Howe: I could have. They are not under investigation by this committee whose reference pertains to Trans-Canada Air Lines. I would be very glad to furnish them before the War Expenditures or any other committee having the right to deal with the matter.

Mr. Harkness: Are they the people at the present time who are turning out these DC-3's which are coming into operation?

Mr. Symington: They are converting them.

Mr. Harkness: The Canadair people are doing that?

Mr. Symington: Yes.

Mr. Gibson: On a contract basis?

Mr. Symington: On a contract basis. They are converting about eighty-seven planes for almost every country in the world. Twenty-four for us, and putting in special equipment necessary to our operation, and they are completing contracts for aeroplanes for Sweden, Switzerland, and countries all over the world.

Mr. Gibson: For a definite sum of money?

Mr. Symington: Yes.

Mr. Harkness: How much do these planes cost, the DC-3's, from Canadair?

Mr. Symington: The DC-3's from Canadair cost us complete $150,000; that includes, of course, the original purchase price of the plane plus special

seating in our case, plus certain safety devices that we insist on putting in. I imagine that our cost may be a little more than the other man's but not much more.

Mr. HARKNESS: I have heard criticism of these DC-3's that they are already obsolete equipment in so far as United States lines are concerned, and the question is raised whether it is good business on the part of T.C.A. to more or less take DC-3's at the present time; what is your opinion as to that?

Mr. SYMINGTON: My opinion about that is, that if anybody tells you that, tell them that the DC-3 is still the finest two-engine plane in the world, without any question. Now, it is quite true that there will be better two-engine planes. There are to-day coming out of the factories better performance two-engine planes than the DC-3 for specific purposes. The American air lines, for instance, one American air line has bought I think forty or fifty Martin 202's. The Martin 202 is a plane which will give remarkable service for a range of five hundred miles or thereabouts. We cannot run it in Canada at all because we have to have a range of 1,500 miles, so it is not available for use in Canada. There are two other planes which are now on the drawing board, or beyond the drawing board stage, which are being considered by American air lines for their local use; but, as I say, none of them—they have all been up to see us and we have gone very thoroughly into it with them. We have told them of our requirements and specifications and they have made an effort to see if they could live up to them; but, of course, they cannot without completely changing their standards; so these planes are not available to Canada in any practical sense whatsoever. But it will be in my judgment two or three years before you will see any considerable improvement in the art of reciprocating engines. The DC-3 is just about as good a plane as you would get any place, in fact it is a marvellous plane for performance. When we get into these jets, that is another question. I am hopeful about that, but the plane to-day used in Canada must have a pay load, and must have a range and must be able to get over the Rocky Mountains with one engine failing, and that is a hard thing to find.

Mr. NICHOLSON: Mr. Chairman, before we adjourned at noon we were discussing the projected extension of the service between Toronto and Winnipeg, and the return service from Winnipeg to Edmonton via Saskatoon, also Edmonton and Vancouver.

Mr. SYMINGTON: The first part, Mr. Nicholson, we expect will be ready. They are now working on the field at Saskatoon, that is what is holding us up. That is not our business although we do co-operate with the department in every way. When that field is built it will be put immediately into operation.

Mr. NICHOLSON: Will that service be operating in 1946?

Mr. SYMINGTON: I would certainly say so; yes, we expect so, without any doubt. I cannot answer for that because there may be labour conditions and material conditions and so on, but as far as I am concerned we are ready, and we believe that the field will be ready, although that is a departmental matter. With respect to Edmonton and Vancouver, we have studied and are contemplating some change in our route. Calgary is a very important city; we feel that they are not on the main line of Trans-Canada.

Mr. JACKMAN: Hear, hear!

Mr. SYMINGTON: And the same time our whole machinery is laid out on the southern route. It costs a lot of money to change. We are, however, contemplating when we get the planes; and this, I think, will be one of the early moves. We propose to run one trip from eastern Canada each way to Calgary direct, where it will connect with a plane from Calgary to Vancouver; and coming back the same way, so that of all the four transcontinentals across, one of them

each way will be direct through Calgary. Each service will join the line from Calgary to Vancouver and Vancouver to Edmonton. We will transship at Calgary. In other words, we are trying to keep our planes in the air and give service by really, what may be called a series, to some extent, of locals, originating business from Calgary. They would not have to take the chance of going to Lethbridge and being held up there, but would select the straight way east or west; and the same way going. The rest will go by the regular main line, by Lethbridge. That is not final; you have got to keep these things elastic. You must try things out by trial and error. You cannot make any money unless you keep your planes in the air. In a particular system like ours, where you must have your maintenance points in order to take care of your planes, you must do a good deal of figuring; so we are trying things out here and trying things out there.

Mr. Nicholson: Then you will have a direct service?

Mr. Symington: Quite so.

Mr. Harkness: Did you not say you were not planning on a direct route?

Mr. Symington: No; it goes from Edmonton to Calgary and to Vancouver. We are coming to Calgary from Edmonton so that, in Edmonton, a passenger who wants to go to Vancouver, just the same as a Calgary man will take that particular flight which goes through to Vancouver instead of getting off at Lethbridge and taking his chance.

Mr. Nicholson: But your map does not show the direct route from Calgary to Vancouver?

Mr. Symington: No; it really strikes the pass down near Cowley, and goes through the same pass. The ranges and all those expensive installations are all there. It may work out so well that two, or four, or an extra one will be put on; but that is what we are starting with.

Mr. Nicholson: Have you had many requests to include Charlottetown in in the T.C.A. service?

Mr. Symington: No.

Mr. Nicholson: You do have a flight passing over there, I know.

Mr. Symington: Yes, but they seem very happy.

Mr. Nicholson: Then they do not mind being left out of Canada, so far as the T.C.A. is concerned?

Mr. Symington: I do not know that; but we have had no pressure on it, so far as I am concerned. They are getting on very well and they are getting a very good service.

Mr. McLure: I would like to ask a question: in the maritimes we have a local airways company known as the Maritimes Central Airways, which is giving an excellent service both for passengers and mail. My question is this: will the T.C.A. become, at any time in the near future, a competitor of our local airways? Or, is there co-operation existing between them at the present time.

Mr. Symington: So far as my answer to that is concerned, Mr. McLure, we are co-operating entirely with the Maritime Central at the moment. What the future will be in five, ten, or fifteen years, I would not attempt either to prophesy or endeavour to suggest, or to bind somebody who may succeed me, or the government, or anybody else; but our relations at the moment are entirely one of co-operation. I imagine that we have been probably of greater service to the Maritime Central in helping them out than anybody outside would realize. They are what we consider to be a legitimate and desirable feeder line, and in that respect I think they are the best in Canada, and they are most likely,

geographically, to succeed. We have not the slightest desire to interfere with them at the moment. That is my own and T.C.A.'s policy; but I do not know what may happen five years from now.

Mr. NICHOLSON: They do not give as good service as T.C.A. to the people travelling there. Those people, I imagine, would prefer to traval via T.C.A. The last time I happened to be in Charlottetown, we were rather late; it was late at night and I wanted a place back to Ottawa; but they could not advise whether the flight would be going on or not. They closed their office at night and I had to telephone to Moncton to telephone T.C.A. whether I had better travel by plane or not. I made train connections at Moncton, but I would imagine that a local company handling T.C.A. would try to please the public better than that?

Mr. SYMINGTON: They are trying to make money, you know, and all night services do cost money.

Mr. McLURE: Does the Maritime Central Airways have to make a special contract for the carrying of mail with the T.C.A., or do they make a contract direct with the postal department here?

Mr. SYMINGTON: With the post office; we have no special contract with them.

Mr. JACKMAN: As far as the maritimes are concerned, if a maritime person wants to go to Vancouver, would it be much cheaper and would it be shorter mileage for him to take the northern route rather than to go down by way of Toronto?

Mr. SYMINGTON: How is that again?

Mr. JACKMAN: My question is purely theoretical, I think; but if a maritimer wanted to go to Vancouver, would it be much shorter for him to go by the northern route rather than to go down via Montreal?

Hon. Mr. HOWE: First we will find out if there is a northern route.

Mr. SYMINGTON: You mean: somebody flying from the maritimes to Vancouver?

Mr. JACKMAN: Yes, instead of going down the southern way, where the earth is broader, would it be shorter for him to fly up north?

Mr. SYMINGTON: Yes, it would be shorter, but it would cost you $50,000,000 to lay it out.

Mr. JACKMAN: The question is purely theoretical, but it seems to me the rate now being charged is based on a mileage basis, and to go along the southern route—that is the only practical route at the moment?

Mr. SYMINGTON: Surely you do not suggest that in world air or domestic air that everybody should be charged upon the great circle route, when there is not a possible chance of a great circle run. The maritimes pay five cents a mile, the same as Torontonians.

Mr. JACKMAN: But they probably travel 50 per cent more?

Mr. SYMINGTON: No, I do not think they do travel any more, or the few miles more would not amount to anything. I doubt very much if it is anything more.

Mr. MAYBANK: I would like to ask you about the routes; your projection—I thought you had exhausted the possibilities of this theory?

Mr. SYMINGTON: Oh no.

Mr. MAYBANK: If I may continue this: your projection shows Winnipeg, Edmonton, and Vancouver; that is, your dotted line projection?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: Now, there are a lot of questions being asked as to which is the main line, when that projection is through, the one from Winnipeg to Edmonton, to Vancouver or the one from Winnipeg to Lethbridge to Vancouver. I do not know if there is very much importance in it, but people are asking about it?

Mr. SYMINGTON: I do not think there is any importance; I think the answer would be that they would both be equally main lines.

Mr. MAYBANK: I suppose you would run the frequency on each which the traffic warrants, and the one with the most traffic would be the more important. There is no plan of making anything at Edmonton?

Mr. SYMINGTON: No.

Mr. MAYBANK: All right.

Mr. JACKMAN: From the morning session I understood that the cut-off at Lake Superior—there is no immediate prospect of that going through on account of the difficulties?

Mr. SYMINGTON: Oh yes, there is a possibility of that going through, at least I sincerely hope so. We have seen the United States people with respect to giving us facilities.

Mr. JACKMAN: You mentioned difficulties this morning?

Mr. SYMINGTON: Giving us facilities so that we may have an alternative field to land at, in case we have to land between the Soo and Fort William. The plan called for a landing place on an island in the middle of Lake Superior but it would be impossible, or very very expensive, and certainly in time it would be impossible to construct; so that, instead of flying from the Soo that way to Fort William, we fly a little bit the other way and hit the tip of Michigan peak where, on United States territory, there is a field if we have to land, that we can land on if we have to. It requires a radio range in order to permit us to take advantage of that route. These international matters take a little time; but the Americans were most receptive, and apparently they are quite willing, not only that we should use it, but that they should construct the field and put in the radio range.

Mr. JACKMAN: Then it might all go through this fall?

Mr. SYMINGTON: I hope so.

Mr. MAYBANK: It would be an auxiliary route for going over the lakes?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: That spot is right at the tip of Michigan?

Mr. SYMINGTON: It is very close to the tip of Michigan at Houghton.

The CHAIRMAN: Mr. Emmerson, I think you had a question to ask?

Mr. EMMERSON: I wanted to ask this question, on the subject of traffic from the maritimes to the Pacific coast; the dotted lines indicate the proposed route, as I understand it, on this map?

Mr. SYMINGTON: Yes.

Mr. EMMERSON: And from Ottawa to North Bay to the Soo and across to Port Arthur and Fort William, to Winnipeg; that is the proposed route, and I presume that depends a good deal on your preparing the route and getting your four-engined planes?

Mr. SYMINGTON: No, it is not dependent upon four-engined planes. If you will look at the map, our main line runs from Montreal and goes to Toronto and then it goes back to North Bay and up around Kapuskasing. We propose first that the line from Toronto to Winnipeg, instead of going in all its flights the long way around, will cross the lakes and go to Winnipeg; and then, another flight from Montreal, to save distance, will go to Ottawa and across to North Bay, with one leg going by the Soo to Winnipeg, and another

leg by Kapuskasing and Armstrong and so on. We discovered in these air lines that this service which was originally considered probably as an extravagance has now become a practical necessity to these towns which have grown up to it and around it, and you cannot desert them; so, while we run across the lakes, we cannot, I do not think, pull out of that northern section completely and leave those people without access to the business that they have been accustomed to. The line you see from Montreal, if we cut out Toronto and go to Ottawa-North Bay, we will get a considerable distance advantage for that particular service.

Mr. Emmerson: But if the route would be, say, from Moncton to Montreal, to Ottawa, to North Bay to the Soo across to Winnipeg, that would be your shortest route, and would be nearer to the great circle?

Mr. Symington: Quite so.

Mr. Emmerson: And that would be a shorter mileage. Now, your through rate would be based on that mileage, or would it be based on the longest route?

Mr. Symington: That depends on what the transport board says, for it is they who fix the rates; but the rates which will be demanded, so far as I am concerned, will be those which give us an efficient operating cost plus a reasonable profit. But that is a matter for the independent transport board to decide what the rates shall be.

Mr. Nicholson: When all these new routes are established, what saving of time will there be between Toronto and Winnipeg.

Mr. Symington: I do not know that I can give you the exact time but there is 190 miles; that will be an hour or approximately an hour less on the cross-lakes, and this one saving may amount to three-quarters of an hour—

Mr. Jackman: In the more finished schedules?

Mr. Symington: Yes; and when these things become more flexible so that you can handle your planes and get them into the air and on to the routes where the greatest traffic is, that will be the governing factor, because cubic space in an aeroplane is a very valuable factor. If one route is popular, then it will get more people than the less popular route.

Mr. Pouliot: I presume we are not going to leave the St. Lawrence valley to one side; it is an old established section of the country and it needs facilities. At the present time there is an airport at Mont Joli.

Mr. Symington: Well, Mr. Pouliot, if you will refer to this map you will find the route to be Montreal, Quebec, Rivière du Loup, Mont Joli, Campbellton, and it may be to Moncton, Saint John and Halifax. That route is looked upon as one of the main line routes of Canada. Rivière du Loup is a large and growing place. Mont Joli has Rimouski, Matane, and the Gaspe Peninsula to be fed through it. Campbellton is a growing manufacturing city. I think that route relative to the population of the cities of Canada is just as concentrated as any other; and I am very anxious to see that line put into operation just as soon as facilities are available.

Mr. Pouliot: Do you expect to be able to do something about it this year?

Mr. Symington: Well, I doubt that, Mr. Pouliot; you see, there is no field at Rivière du Loup and no field at Campbellton; and I do not think it would pay to run a route until we can stop at the population centres. I am sincerely hopeful that Mr. Ilsley won't be too hard with the Estimates with respect to air fields. That is all I am interested in; but we are ready to go when we get those planes. We are turning out the personnel and we want to go; so when the facilities are ready for us we will be there to operate.

Mr. Pouliot: Mr. Howe, did you receive a report on the establishment of an air field in the vicinity of Rivière du Loup?

Hon. Mr. HOWE: Well, the report was received and a survey was ordered. I have not seen the survey yet. Commander Edwards tells me that the survey is going on at the present time, but the estimate has not been made.

Mr. POULIOT: You say that the survey is now being made?

Hon. Mr. HOWE: Yes; there was one started last fall, and it was sent back for more data. A study of the survey indicated that more data were needed.

Mr. POULIOT: I understood that last fall it was too late to have a final report?

Hon. Mr. HOWE: That is right.

Mr. POULIOT: And now I learned that instructions have been given for a further study?

Hon. Mr. HOWE: That is right.

Mr. POULIOT: If the report is satisfactory, will you act upon it?

Hon. Mr. HOWE: I will present it to my colleagues and hope that they will act on it. All I need to act is money.

Mr. POULIOT: Well, you have some money for that purpose in the estimates?

Hon. Mr. HOWE: Just enough to cover the survey. But there will be more supplementary estimates later and perhaps we can do something about it.

Mr. JACKMAN: I think it is germane to the T.C.A. to ask Mr. Howe a preliminary question or two with regard to Canadair: If Canadair does business for other countries, how do you handle that business?

Hon. Mr. HOWE: The operating company has leased certain facilities there that were not part of the original Vickers plant; certain facilities formerly occupied by Nordheim; and they are doing work for the various governments in those plants, under separate arrangements.

Mr. JACKMAN: Part of the plant is leased and part of the plant is on a direct cost plus basis.

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: Is it to be the policy of T.C.A. to have all these major repairs or reconditioning jobs, such as reconditioning an army plane for passenger traffic or building new planes, done at Canadair and not in plants like Malton and elsewhere in the country?

Hon. Mr. HOWE: Canadair has an arrangement with Douglas Aircraft, and these planes all happen to be Douglas planes. That work is concentrated at Canadair, but Malton is also doing some work for transport lines.

Mr. SYMINGTON: A good deal of work.

Hon. Mr. HOWE: And will undoubtedly bring out a plane of its own in another class, which will be interesting.

Mr. JACKMAN: T.C.A. has no direct relationship with Canadair except through the government?

Hon. Mr. HOWE: Just the government.

Mr. SYMINGTON: May I give you some figures I have had drawn with respect to the actual single fares throughout the United States and Canada? The average passenger fare for Canada is 5.15 cents a mile. The United States average is 4.84 cents plus .53 cents exchange or 5.37 cents. That is for 1945.

Mr. HARKNESS: That includes short and long hauls?

Mr. SYMINGTON: That includes short and long hauls.

Mr. HARKNESS: The type of thing you were talking about this morning in regard to the fare to Victoria?

Mr. SYMINGTON: I think so far as I know the rate is all the same throughout the United States. I do not think there are any long and short haul fares.

Mr. HARKNESS: I had two ideas in mind in the matter of fares. The first was that it does not seem reasonable that the people of Canada should have to pay more than the people immediately to the south of us, particularly in view of the fact that our returns to the individual generally speaking are lower. Secondly, if the fares on T.C.A. are higher than the lines which, as you say, compete with you in the northern part of the United States I would think that it would mean in the course of time when the various restrictions are removed, particularly as to exchange, and things are more normal, that the American lines would take most of your business?

Mr. SYMINGTON: Well, we will not let them. There is no doubt about that. We will meet it when we have to meet it.

Mr. HARKNESS: Then at the present time what you are doing is more or less taking what the traffc will bear?

Mr. SYMINGTON: Not at all. Look at our statement. Is a company whose mail rate was reduced by over a cent trying to charge what the traffic will bear? We are working for a public company. We were a government company. There was no advantage to us.

Mr. HARKNESS: From what I can make out your mail rate as well compared with the large trancontinental United States air lines is several times higher than theirs is?

Mr. SYMINGTON: Oh, perfectly true, but I should like to show you diagrams of the mail carriage by those people and the distance carried. Although they are ten to twelve times as big they are carrying thirty times the mail we are.

Mr. HARKNESS: Your mail rate works out at 1·5 mills per pound mile whereas theirs is only ·33 mills per pound mile?

Mr. SYMINGTON: That is on the main lines, perfectly true, but some of them instead of being 1·5 are 5·5, 6·5, 4·3. We cannot compare with the three big main line operators who have the 4·5 rate. We cannot do it.

Mr. HARKNESS: I would think that those would be the people whom you should compare with?

Mr. SYMINGTON: Then, I am sorry, but you would have to look into the conditions of operating, and you would see, for instance, that our total pound miles performed was 3,000,000,000 whereas in the United States it was 101,655,000,000 pound miles performed. Volume traffic is of the greatest importance, and being able to load and unload as you go along instead of carrying great distances is of double that importance. You may as well recognize that there is not any possibility, unless Canada grows very materially and settles her intermediate areas, of any air line ever being able to carry mail as cheaply as it can be carried under conditions in the United States. You just cannot do it. If you give me the $1,500,000 I would have earned but for restrictions upon my operations, yes, I will beat them every time. That is, T.C.A. will, but you cannot do it. You cannot fight nature, geography, population and everything else. If you could move the middle states up into middle Canada and middle Canada down into the middle states then you would have an idea of some of the difficulties and expenses of operation. There is not any use trying to mislead you. There are the facts, and you cannot get over it.

Mr. HARKNESS: The main point is what you said yourself though a few minutes ago, that you will reduce your fares to the level of the American fares when you have to. In other words, if you do not do that we are not going to have any transcontinental air line in Canada?

Mr. SYMINGTON: I am going to meet it when I have to meet it.

Mr. HARKNESS: That is the main point I am getting at in the whole fare matter. It seems to me that the fares should be more or less comparable.

Mr. SYMINGTON: It depends upon your method of fares. I have given you figures. As a matter of fact our fares in Canada during 1945 were lower than the average fare in the United States.

Mr. HARKNESS: You just gave figures that would show the reverse.

Mr. SYMINGTON: No, I did not. I just gave you figures which showed that the Canadian fare was 5·15 and the American average fare was 5·37.

Mr. HARKNESS: You gave 4·84. That is what I put down.

Mr. MAYBANK: That was a different measurement.

Mr. SYMINGTON: The average fare in money value today is 5·15 cents. The United States average is 4·84, and you add exchange of ·53 cents, making 5·37 cents in equivalent money.

Mr. HARKNESS: If the fares are comparable I am satified and very happy to hear it.

Mr. SYMINGTON: I am not saying they will always stay comparable because I would sooner give you a poorer picture than an unjustified picture of operating conditions in this country.

Mr. HARKNESS: In connection with the mail matter you were mentioning a minute ago I cannot quite understand one feature of your report on it. On the first page of your report you show that the air mail volume declined by 8 per cent and the air mail pound miles decreased by 11 per cent. Over on the next page you show that the return for the carriage of mail was 41·98 cents per plane mile flown as compared with 42·03 cents in 1944, but above that you show that mail revenues increased $448,544 or 12 per cent.

Mr. SYMINGTON: Yes. Let me explain it to you.

Mr. HARKNESS: How does that work out? You have got a decrease in rate and a decrease in miles flown and so forth and yet you get more money.

Mr. SYMINGTON: I can explain it very easily. Under the original Trans-Canada Act we were paid by the plane mile so that the more miles we flew the more the Post Office had to pay, whether we carried more or less mail. At the same time the rate per plane mile was fixed upon the money we had made the year before deducted from the plane mile rate of the year before so that in 1945 our plane mile rate came down but we added frequencies so that our plane miles increased, and although we carried less mail we got more money out of it. In other words, the Post Office made less money on a lesser rate during 1945 than they did in 1944 because the mail volume had dropped off.

Mr. GIBSON: We got improved service out of it though?

Mr. SYMINGTON: Yes, but that was the result. That has gone by the board. We are now on a pound mile basis.

Mr. POULIOT: The figures are in the report, too?

Mr. SYMINGTON: Yes. You have got to understand it. I quite agree with you. It looked like a Philadelphia lawyer.

Hon. Mr. HOWE: We are now on a pound mile rate, you see.

Mr. MCCULLOCH: Does that rate of 5·15 take into consideration the 15 per cent?

Mr. SYMINGTON: No, I think not—oh, yes, it does.

Mr. HAZEN: In connection with the transatlantic air service has an agreement been entered into with the government of Great Britain to allow you to land passengers and cargo there?

Mr. SYMINGTON: Yes. This is not between Trans-Canada and the government of Great Britain. It is a matter between governments, and I do not know that I am the proper person to answer that other than I can say we had a meeting at which I was present as the government representative with the

minister at Bermuda where we made an agreement. Certain factors in that agreement were subject to confirmation of some of the southern islands, and the result is that the complete agreement has not yet been signed, but for three and a half years Britain has been running to Canada and we have been running to Britain.

Hon. Mr. HOWE: I think the north Atlantic agreement was signed at Bermuda.

Mr. HAZEN: It is only under a temporary agreement that you have been running back and forth for the last few years?

Mr. SYMINGTON: Yes, but we have made an actual civilian air agreement now covering trips between Great Britain and Canada, and Canada and Great Britain.

Mr. HAZEN: Are you operating now for the Canadian government this transatlantic air service or are you operating now as T.C.A.?

Mr. SYMINGTON: We are operating the government service still.

Mr. HAZEN: Do you expect soon to operate as T.C.A. on the Atlantic?

Mr. SYMINGTON: As soon as we get planes which are built or made or used for that purpose. We are operating this service under an agreement with the department, and we are increasing it. We now have five services a week and we expect at the first of June to have seven services a week. That will be the completion of that service until we get our new planes.

Mr. JACKMAN: I can only take from your suggestion that the present planes are good enough for the government but not good enough for T.C.A?

Mr. SYMINGTON: Oh no, not at all. These planes were military planes. We are running them in competition with American planes that carry 40, 50 and 60 people while these planes will only carry 10. They were military engines which had many disadvantages, and it is, I think, to the extreme credit of the engineers of the organization that there is a service which even to-day in regularity exceeds the service of any air line crossing the North Atlantic. When you come to operate a 10-passenger plane in competition with a 40- or 50-passenger plane of course you are up against tough going. Much to my surprise we are actually at least breaking even on the operation. That is the arrangement. If we make any more it is written off against cost of the planes. The planes were planes which were built for war purposes, and that is the situation. When we get our own planes which we hope will be commercially effective why then it will switch to a T.C.A. operation.

Mr. JACKMAN: They are not good enough to carry your flag so far?

Mr. SYMINGTON: I would not say that. I would say they are good enough to carry our flag, but I do not think it would be wise, and I know of no private line that would think of being willing to do it and maintain service with planes of that character, because they were not built for the purpose. We are using up planes that were built for military purposes. We have spent a great deal of money fixing engines, fixing power plants, fixing signals, and have done a really remarkable job on them.

Hon. Mr. HOWE: It is still the best service across the Atlantic.

Mr. SYMINGTON: And to-day we are getting a good deal of traffic and could get more if we could accommodate them, English people who have travelled both ways and who want to travel on our line although we are only running a military plane.

Mr. NICHOLSON: How many planes have you in your fleet at the present time?

Mr. Symington: We will have six planes. There is one just coming out from conversion at Malton. When we get that we are going to run seven flights.

Mr. Nicholson: Your report mentions that you have three flights.

Mr. Symington: But that is 1945.

Mr. Nicholson: When you had three flights a week you still had six planes. Can you give seven flights?

Mr. Symington: We are getting one more, just six.

Mr. Nicholson: You can give daily service with that number?

Mr. Symington: Yes, daily service.

Mr. Jackman: You are booked to capacity on these transatlantic flights?

Mr. Symington: We are booked to capacity now, but we were not booked to capacity going eastbound for some time before we took over under the last arrangement. Nobody in Canada would go over because they never knew when they would get back. We had to make an arrangement whereby we reserved a certain number of seats for people who wanted to travel from Canada and we said, "We will reserve you your return fare." If they had waited their order in England they would never get back so that they would not go. Now we are running capacity both ways.

Mr. Jackman: There are no priorities now?

Mr. Symington: No priorities.

Mr. Nicholson: When you get your new planes what will happen to the fares? If you are breaking even now it would seem that you could bring down your costs when you have your new planes?

Mr. Symington: That again is not quite as apparent as it seems. We would not operate at the present rate with our present planes if it were not for the competitive situation because we are entitled to make some money out of that operation. When we get our own planes they will be in operation in the most competitive situation that will exist in the international air world, which will be across the North Atlantic. We will be in full competition with the three largest American air lines, with Air France, with K.L.M., which was the most efficient line prior to the war, with Sweden, with Belgium. They are putting in a line. B.O.A.C. are putting in a line, all with big planes, and all with many frequencies, so that the competition on the North Atlantic is going to be just as severe as anything that you can conceive of. It is only the efficient that will survive.

Mr. Nicholson: You are hoping that T.C.A. will survive in the race?

Mr. Symington: We have got to take our chances.

Mr. Hazen: What about the feeder lines in the west? If I remember correctly last year an act was passed providing that no company engaged in any other form of transportation could operate an air line. Does the Canadian Pacific Air Line still operate there and connect with your lines?

Mr. Symington: Canadian Pacific Air Line under that name—I do not know.

Mr. Hazen: I am not sure if that is the right name.

Mr. Symington: They or their subsidiary companies do operate lines which connect with our lines. I did not know there was any statute which had provided that. I think it was announced that the government had some intention, and then I saw by the press that the decision on the matter had been postponed a year, or something of that kind.

Mr. Hazen: Perhaps the minister could tell us if an act was passed.

Hon. Mr. HOWE: No, there is no act.

Mr. HAZEN: Was there not an act passed providing that no company engaged in any other form of transportation could carry on an air line?

Hon. Mr. HOWE: There was an extension of it, I think; an amendment.

Mr. HAZEN: Did it not provide that it was to come into force within a year?

Hon. Mr. HOWE: Yes, except that it had a saving clause that it might be extended by order in council. It had to be extended for several reasons; one was that there was no new equipment, and no new company to take it over.

Mr. HAZEN: For how long was it extended?

Hon. Mr. HOWE: One year.

Mr. HARKNESS: In connection with these new four-engine planes you are getting built at Canadair at the present time, you mentioned that they were what is known as the DC-6; in reading your report this morning I think you called them the DCM-4.

Mr. SYMINGTON: DC-4-M.

Mr. HARKNESS: Was it the same plane about which you were speaking?

Mr. SYMINGTON: It is the same plane; but what happened was this, that the original four-engine plane was called the DC-4. It was just completed before the war but the bugs had not been taken out of it and it was on the experimental list. In the course of the war the DC-4 was taken as the best transport basic model and was changed into what became the military version, C-54. The military version, the C-54, continued on down, C-54—A, B, C, D, E, and F, if I remember rightly, chiefly by improvements arising out of experience. When the Dominion Government made their arrangement with the Douglas people to build a plane here based upon their models to that date it was not the DC-4 original, it was the DC-4 as it had arrived at the C-54E stage. Then, with the progress of the art Douglas proposed building a bigger and perhaps a better plane, I don't know, which he called the DC-6. Now, the Canadian version of the C-54E, the development of the DC-4 at that time, compared with the DC-4M, which was the Canadian version of the DC-4. Then we changed that plane by using the inline liquid cooled engine as opposed to the reciprocating.

Mr. HARKNESS: That is the Merlin?

Mr. SYMINGTON: It is an air-cooled engine.

Mr. HARKNESS: That is the British Merlin?

Mr. SYMINGTON: It is a development of the British Merlin. It is an engine developed by Rolls Royce and ourselves as the result of our experience over the ocean in the last few years, because there was no American engine which could meet our requirements which we felt necessary to take the plane we required over the North Atlantic. Then the DC-6 incorporated pressurizing, and certain changes in the wing loadings with fuel was readopted into our version, and it became partly a DC-6, and we talked about it as a competitive model of the DC-6. And I must take the responsibility for having it referred to as a DC-6 in the report. Subsequently I received a letter from Mr. Douglas stating that he would have his DC-6 completed about the same time as we would be completing our DC-4-M, and he called our attention to the fact that as he was starting a very big publicity campaign, demonstrations and everything else, that our plane while containing pieces of the DC-6 was not in fact the DC-6; at that time it was quite different, but he thought he was justified in asking that we not call our plane the DC-6; that is the reason I made the correction.

Mr. HARKNESS: I understand. Thank you. Yet, in connection with these planes, you say you cannot tell us what they are costing at Canadair?

Mr. SYMINGTON: I cannot tell you that yet.

Mr. HARKNESS: Haven't you a contract?

Mr. SYMINGTON: We haven't a contract, no.

Hon. Mr. HOWE: They are being built in a government plant at government expense. We do not know what they are doing to cost.

Mr. HARKNESS: Is the T.C.A. going to pay for them, or the government?

Hon. Mr. HOWE: The T.C.A. will have to pay for them, but we do not know what we will have to charge them yet.

Mr. GIBSON: They are taking an awful chance.

Mr. SYMINGTON: That is true. There is another thing I would like to point out, that the T.C.A. personnel are the most highly trained personnel in Canada, and although the planes are being built there we have spent a lot of money with our men in there assisting in the building of these planes because our experience during the war and after the war has been—and the experience of every other country too—that they do not want to have to rely upon another country for their planes; and may I say that I am glad to see that the minister takes the same view, or put it vice-versa; but we were prepared to perhaps be subject to some criticism in perhaps being a little behind the U.S. lines; more so than would have been the case had we gone out and bought new planes there. It would have been so easy, and I would have been happy to have gone out and been able to buy planes, it would have saved me a lot of headaches as compared to what was involved in the setting up of this new air industry in this country. But I am perfectly satisfied that we are doing well, and I am perfectly satisfied that the planes that will be built will be better suited for Canadian requirements than any planes that we could buy from anywhere else.

Mr. GIBSON: You say that the planes are being built there to help develop a Canadian air industry; does that plant actually make parts, or is it what you might call an assembly plant?

Mr. SYMINGTON: No, they make them; jigs and dies, rejigged and re-died. The whole question about the cost of air plants is that it is your first plane which costs you the most, and that your ultimate cost depends on how many you can divide the engineering cost into. This is not an assembly plant, it is a construction, a production plant having its own jigs, dies and tools and so on.

Mr. MAYBANK: What about the engines?

Mr. SYMINGTON: The engines, the power plant, is made on Canadian plans by Rolls Royce in England. Whether they will start a plant out here or not, I could not say at the moment. They are more interested, or just as much interested in design as anybody else is. They see their chance because theirs is the only part of the air construction industry in England that up to the moment has stood up; and, needless to say, they are very, very anxious that these planes be a success and have co-operated to the fullest extent with us in every way.

Mr. JACKMAN: When you say stood up, do you mean they have done best with the developments?

Mr. SYMINGTON: They can possibly compete with the American planes.

Mr. JACKMAN: That is because they specialized in fighter aircraft.

Mr. SYMINGTON: I am not going to give any reason; but I can recall with some satisfaction that they tried to force us, or suggested that we agree that we use only English built planes. When we went into the subject we told them we could not do it. When we were finished with them they came to the conclusion themselves that their planes were not adequate and could not compete with the American type of plane. Outside of ourselves I do not know of any country in the world that is not buying American planes.

Mr. HARKNESS: As a matter of fact, I heard reports that Canadair brought in about fifty carloads of surplus American DC-4 parts out of which these planes were being developed and constructed.

Mr. SYMINGTON: Well, don't you believe everything you hear.

Mr. JACKMAN: That is the reason we have a committee like this.

Mr. HARKNESS: I don't believe everything I hear, but I believe there must have been some basis in fact for that report.

Mr. SYMINGTON: There is no use of our disagreeing on that. Certainly we bought a very, very large supply of parts and a lot of spare parts for the C-54, or the C-54-E, but they were not bought by Canadair as parts for assembly but rather on a scrap basis.

Mr. HARKNESS: That is what I understood.

Mr. SYMINGTON: Because it is from them that they make their jigs, dies and tools, and it is with them that they did the experimenting so as to get better features, to improve the plane. What you want to do, and I suggest this to the committee, is to come down to Montreal and I will be very happy to take you out there and take you through the plant so you can see the jigs, dies, tools, and see the plane, the whole plane being constructed.

Hon. Mr. HOWE: When you have eight thousand people working in a civilian plant, that is something you never expected to see in the aeroplane industry.

Mr. HARKNESS: Might I finish this, please? It was partly due to reports of this kind, when I heard this story about this large amount of material bought at scrap prices—ten cents a pound is the figure I got—that I wondered what the price would be to T.C.A., what they would have to pay for these planes.

Mr. SYMINGTON: They were not bought for the purpose of using them in the planes; they were bought largely for the purpose of moulding, or using them to mould, the jigs, dies, tools, into what they required according to our specifications for the plans as we drew them up.

Mr. MAYBANK: Arising out of that, Mr. Chairman, it would not be a bad idea if this committee, or a group of members of the House, or the members of some other committee, could find time to go into that plant and look at something of that sort for themselves; an informal meeting having nothing to do with the report or anything like that, but if we could take that in, if a trip of that kind could be arranged, it would be a very fine thing.

The CHAIRMAN: I would be glad to do that, but Canadair does not come under our reference.

Mr. SYMINGTON: I would be glad to arrange that.

Mr. HAZEN: Do T.C.A. convert these planes?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: How many planes are you having made at this Canadair plant now; how many planes are being built there for you?

Hon. Mr. HOWE: I do not think the number has been set. I think they are working on a tentative order of twenty, which will not be enough.

Mr. JACKMAN: But you have no idea of the cost?

Hon. Mr. HOWE: The air force also has a contract in for a military type of plane, a four-engine type, and Canadair is loaded with all the work they can do for a while.

Mr. SYMINGTON: Numbers of course will count. Many people are looking at them right now. Were they completed, right now we could sell, if we were permitted to, a large number. Don't make any mistake, this is a real plane.

Mr. JACKMAN: It is a new plane? A new design?

Mr. SYMINGTON: Yes. The theory is that it is a combination of the best basic fuselage known and the best power plant known; it may not work out. If it does not I will have to jump into the ocean; but, at any rate, we think it is a good plane.

Hon. Mr. HOWE: If this committee want to make a contribution, we are looking for a good name for the plane, it is a four-engine plane, a Canadian type. If anybody can suggest a name that we accept we will give them a prize.

Mr. MAYBANK: You want a new name for this plane?

Hon. Mr. HOWE: Yes.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. JACKMAN: But you have no real idea of what the cost of these twenty planes will be?

Mr. SYMINGTON: We have estimates, yes. Our people have estimates, but I have no real knowledge; but as I say, Mr. Jackman, whatever the cost of the plane is it makes a difference whether you divide it by twenty, or fifty, or one hundred.

Mr. JACKMAN: I realize that.

Mr. SYMINGTON: Depending on how many planes the R.C.A.F. used, and how many planes T.C.A. used, and how many planes Australia used and how many we can sell to other countries.

Mr. JACKMAN: But if these other countries have tariff rates against the importation of them, we won't be able to sell many of them?

Mr. SYMINGTON: I think the air industry in Canada is to be commended.

Mr. JACKMAN: I have a clipping here from an American journal, which says:—

> Donald W. Douglas, head of the company which built thousands of transports and bombers during the war, has just declared that it now takes 'many millions' of dollars to develop a new airplane, whereas before the war it took only several hundred thousand.

So I am rather concerned with how much these planes cost you.

Mr. SYMINGTON: Some planes cost a great deal of money and some cost relatively little money. The Constellation plane which is the popular plane today and which, in my humble judgment, will not be as good a plane as ours, I am told cost $80,000,000 to build the first one. But we were wiser than that because we hooked up with another company who had spent many millions in developing the DC-4 and then the C-54, from which we went on to our own changes, ourselves; so the situation is not comparable at all and it won't be; the cost won't be anything, I hope, remotely approaching any such figure.

Mr. JACKMAN: In connection with power plants, you mentioned that you were using a special type of Rolls-Royce engine. Now, we observed in one of the War Assets Corporation advertisements the other day that they were selling Rolls-Royce engines of high power at very nominal prices. I understand that some foreign countries have bought such planes in Canada for commercial use because those planes are not licensable under our aviation authority here. Were instructions given to T.C.A. about acquiring any of those new Rolls-Royce engines?

Mr. SYMINGTON: It would be simply ridiculous to suggest using them. I would not kill people with them in the service on the north Atlantic. You do not understand the difficulties of the situation. That is the toughest route in the world and nobody has flown it with the success that we have had.

Mr. JACKMAN: Well, our boys used them on long bombing raids?

Mr. SYMINGTON: That was the trouble. The engine was built for a dash and a crash; it was not built for five years of daily slugging it out across the ocean. It is impossible now to use those engines; it would be utterly impossible to fly them 3,000 miles, going up to 25,000 feet to be safe, when those planes could not go above 6,000.

Mr. JACKMAN: 6,000 feet?

Mr. SYMINGTON: Yes, across that ocean. Of course they could not.

Mr. JACKMAN: And yet they made marvelous record during the war?

Mr. SYMINGTON: Yes; they would dash from England to Germany and back, but they never crossed the ocean.

Mr. JACKMAN: Well, then, what are they doing on this side of the Atlantic?

Mr. SYMINGTON: Oh, they were flown from one island to another in order to get them across the ocean; they were never flown directly across. These ships which were flown directly across were the big American ships with the American engines.

Mr. JACKMAN: Those Rolls-Royce engines were not as good as the American engines?

Mr. SYMINGTON: The Rolls-Royce engines were all right for night bombing and they had plenty of speed and carrying capacity, but they were not built to cross the Atlantic Ocean.

Hon. Mr. HOWE: This discussion is out of order because we are not buying them.

Mr. JACKMAN: No, but you are buying Rolls-Royce engines, and that is a question which naturally comes to the mind of the layman.

Mr. SYMINGTON: We are buying a completely developed Rolls-Royce engine.

Mr. JACKMAN: At the bottom of page 1 of your report you say:—

> Where action lay beyond the jurisdiction of the Air Line, recommendations were made to the appropriate authorities.

What are you referring to there?

Mr. SYMINGTON: I was referring to the Department of Transport, because we have to have air fields and communications. If we had to do with the United States, we did it with them. We had to have facilities in our running of the air lines and we could not do it ourselves.

Mr. JACKMAN: You simply made application?

Mr. SYMINGTON: Nobody is anxious to spend money these days; even our Department of Transport is pretty tough.

Mr. HARKNESS: You told us a little while ago what the cost of those DC-4M's would be?

Hon. Mr. HOWE: I will tell you after a while what the cost is going to be for them; so do not ask Mr. Symington now what the cost will be because he does not know.

Mr. HARKNESS: I think it would be of some considerable interest to the committee to know what the proposed cost of these planes is going to be.

Mr. SYMINGTON: I cannot tell you that.

Mr. GIBSON: I do not think you should have to subsidize the aircraft industry in Canada and charge it up to your operating expenses.

Mr. SYMINGTON: I propose to find out about that.

Mr. HARKNESS: In view of the fact that Canadair has not had to bear any of the initial cost of developing the planes which you say is of a tremendous advantage, should you not get planes at a relatively fair price? I was wondering what that price might be?

Mr. Symington: I did not say that they had not done experimental work; what I said was that they had an advantage with respect to preliminary work and with respect to certain plans, basic plans upon which we had improved but which did require experimental work and a great deal of skill in the making of parts and the making of jigs and tools, but it is nothing like it would have been had we started ourselves from the bottom.

Mr. Harkness: So you should be able to get a plane at a reasonable price?

Mr. Symington: I sincerely hope that we do.

Mr. Hazen: How many planes did you buy in 1945 that you paid for, and what did you pay for each of them?

Mr. Symington: We bought twenty-four.

Hon. Mr. Howe: Dakotas.

Mr. Symington: C 47's or Dakota's which were a cargo version of D.C.3.

Mr. Hazen: Were they new planes?

Mr. Symington: No, not new planes. We turned them over to Canadair, and the first one, the first three that we did, on our own cost plus basis—if my recollection serves me—they cost us about $120,000 for conversion.

Mr. Jackman: Each?

Mr. Symington: Each, for the three new planes of the twenty-one for which we paid $20,000 each. We have a contract for most of the work, plus work we are going to do ourselves on them with respect to safety devices and some other things; and the cost to us will be about $150,000 a plane.

The Chairman: Are there any other questions, gentlemen?

Mr. Jackman: In acquiring those planes, was there something put into the budget of the company in order to acquire more capital stock?

Mr. Symington: Up to the moment we have taken up only $4,600,000. We have reached a stage where our authorized capital is $25,000,000; but as we need the money, we will call upon them to buy the stock, to provide it.

Mr. Jackman: You have the issue in request so far?

Mr. Symington: We have issued a request for the $400,000 to bring it up to the original $5,000,000; but we will go far beyond that, of course.

Mr. Jackman: As a good merchandiser, I suppose you have an idea of why the air mail has fallen off?

Mr. Symington: It is largely because there is no military air mail; that is the main reason. The greatest proportion of the mail that we were carrying was really service mail to the soldiers. We were carrying all sorts of things, packages and so on. Everybody was writing letters every day to soldiers and they in turn were writing them home. But all that has gone.

Mr. Jackman: Is the present rate on airborne air mail volume considered high?

Mr. Symington: No, I do not think it is; it is not so in the States, and I do not think it is here. We are undertaking an advertising campaign to try to popularize air mail, now that we are getting the service and of a sufficient frequency that they can be assured of getting what they pay for.

Mr. Jackman: Is the air mail rate the same in the States as it is in Canada?

Mr. Symington: It is one cent more.

Mr. Jackman: I notice that you say that additional space was obtained in the ramp building at La Guardia airport. How do we find the United States treatment of our passengers with regard to customs and immigration?

Mr. Symington: We found it very difficult at first, but we think it is gradually working out and improving. I think there is very little to complain

about now. These things take time; but once you work through the various departments, I think it is working quite satisfactorily. We had too little space at La Guardia airport, but we managed to get some further accommodation. There were many complaints about the situation there, and I could not blame the patrons at all. There are now relatively few complaints.

Mr. JACKMAN: There are some statistics in regard to air transport companies which I have seen but which I do not recall right now. I think they dealt with the number of employees per plane flown, in order to measure one line against another. Are you familiar with a common measuring rod or rule of some as between lines, referring to the number of employees?

Mr. SYMINGTON: I should think that the per plane mile, or per revenue mile, would be the real test.

Mr. JACKMAN: Have you got any comparative figures in regard to T.C.A. as to whether you have too many personnel or too few?

Mr. SYMINGTON: I have figures that we got at the conference in New York when we were considering rates; and as I explained, our direct costs were higher but our indirect costs lower; but in the aggregate there was very little difference.

Mr. JACKMAN: I saw some figures from American lines not very long ago showing the number of employees per unit of operation.

Hon. Mr. HOWE: It is not a very scientific unit, because an extra flight would require very little extra personnel.

Mr. SYMINGTON: I would say that ours was very much lower, because of the tremendous indirect overheads they have over there. They go to great extremes and great expense in their traffic arrangements, their advertising and their public relations, and their giving people this and that. I am filled up with gold pens and pencils from American air lines; but they were taking it off their taxes. They were giving away clocks and everything else. That is my real recompense in this job, receiving the presents that I get from American air lines.

Mr. HARKNESS: I brought up the question last year as to the amount of staff which T.C.A. employed as compared to C.P.A., and I got a few figures which are for the month of August last year. I cannot guarantee their accuracy, but C.P.A. carried 15,000 passengers while T.C.A. carried 19,000. C.P.A. required a staff of 1,002, while T.C.A. had a staff of 3,006.

Mr. SYMINGTON: I think I answered you at that time.

Mr. HARKNESS: C.P.A.'s total traffic expense was $11,000, while T.C.A.'s was $42,000. T.C.A. flew 5,836 revenue hours, while C.P.A. flew 4,984, only some 900 less. That seems a terrific disparity?

Mr. SYMINGTON: We carry passengers in a high state of comfort while they haul cows and machinery and goodness knows what not up to the north-west; so you cannot compare the two at all. The C.P. Air Lines are at present engaged in the study of our methods in Winnipeg because they have found that our methods were very much superior. They have asked permission to study our methods so that they can revise their operations.

Mr. HARKNESS: There seems to be a large disparity in the number of employees.

Mr. SYMINGTON: Of course, the figures you are using in the miles are Canadian and the figures of employees include the Trans-Atlantic service and the B.O.A.C. service, which makes a difference of a thousand or two in the figures.

Mr. HARKNESS: How do you mean?

Mr. SYMINGTON: Well, you have taken the mileage figures of Trans-Canada domestic.

Mr. HARKNESS: Yes.

Mr. SYMINGTON: But you have added to our employees all the people taking care of the Canadian Government planes that fly the Trans-Atlantic, which is completely T.C.A., and the 900 men that are engaged for the British government or the B.O.A.C. in maintaining or converting their planes so they can operate across the North Atlantic.

Mr. HARKNESS: How many men would that take off the T.C.A. total?

Hon. Mr. HOWE: You are comparing totally different services. If a man flies into Yellowknife there is no organization there; he is on his own.

Mr. HARKNESS: It is a more difficult service.

Mr. SYMINGTON: Our domestic service represents 2,350.

Hon. Mr. HOWE: The passenger rates are adjusted and everything costs twice as much on the C.P. Air Lines, yet the profits are no greater.

Mr. SYMINGTON: I might point out too that the majority of their passengers on any run they have are on the eleven flights between Victoria and Vancouver. We are carrying a number of passengers an average of 500 or 600 miles, which makes a difference.

Mr. JACKMAN: We are pleased to note that you have been able to overcome the difficulties encountered in retaining R.C.A.F. pilots into civilian pilots.

Mr. SYMINGTON: I do not know that you want to get on that subject again, but I want to tell you that we have spent a million dollars on those boys and they are going to be the finest pilots in the world; but it has taken a lot of time and money, as I said it would.

Mr. JACKMAN: Did it take more money than it would have taken to train raw recruits?

Mr. SYMINGTON: I am not going to go into that discussion. Are you trying to get me into trouble again? You should be more generous.

Mr. JACKMAN: If you want to fall into it it is all right. The air force didn't take your remarks very kindly.

Mr. SYMINGTON: If they had been in the committee I think they would not have taken them unkindly.

The CHAIRMAN: Gentlemen, what about the report? Shall we pass it?

Mr. JACKMAN: With regard to the T.C.A. line across the Atlantic, you have had no accidents at all, have you?

Mr. SYMINGTON: No.

Mr. MOORE: I would like to ask one question in connection with employees of the T.C.A. Do they belong to a union?

Mr. SYMINGTON: Yes.

Mr. MOORE: What is the name of the union?

Mr. SYMINGTON: Well, there is the Canadian Pilots Association and there is the International Association of Machinists.

Mr. MOORE: Do those who work in the hangars and the passenger agents—you might say the ordinary workers—belong to the union also?

Mr. SYMINGTON: Not those working in the traffic department—not the white collar men—but the pilots.

Mr. MOORE: The staff does not belong to a union?

Mr. SYMINGTON: The staff does not belong to a union; but the machinists and the practical men do and the pilots do.

Mr. NICHOLSON: Have you agreements with these different people?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Our pilots are paid very much less than the American pilots are paid, are they not?

Mr. SYMINGTON: They do not get very much less now; they get some less now. We were the same a year ago, but the demands upon which they are striking in the United States, or threatening to strike and the government has stopped them—there is an arbitration going on—are for a very, very high figure.

The CHAIRMAN: Is the report O.K., gentlemen? Perhaps you may think I am too anxious, but we have spent a lot of time on it.

Mr. JACKMAN: Our post office contract runs for a while longer, does it?

Mr. SYMINGTON: No, the 1st of April—a new contract.

Mr. JACKMAN: You have just renegotiated a contract?

Mr. SYMINGTON: We have just renegotiated a contract.

Hon. Mr. HOWE: On the basis of the last amendment to the Trans-Canada Act made last year.

Mr. JACKMAN: Shall I ask some questions as to the terms of the contract?

Mr. SYMINGTON: It is a contract whereby we pay for the first year 1·5 mills per pound mile and that successively each year declines to ·9 mills.

Mr. JACKMAN: That is per pound of mail?

Mr. SYMINGTON: Per pound mile.

Mr. HARKNESS: How much did it decline a year?

Mr. SYMINGTON: It declined from 1·5 to 1·4 down to ·9 mills.

Mr. HARKNESS: It declined ·1 of a mill every year?

Mr. SYMINGTON: It declined ·2 mills.

Mr. JACKMAN: There is no way of relating that to the old method, is there?

Mr. SYMINGTON: Let me get this right because I did ask questions about it myself. We are paying this year 1·5 mills. Had we paid on the volume of mail for the first three months under the old contract it would have been 1·76 mills.

Mr. JACKMAN: How does it compare with the 41·98 cents?

Mr. SYMINGTON: That is it. Had we continued the old agreement for the first three months this year it would have been 1·76 mills, and the new contract starts at 1·5 and goes down to ·9.

Mr. JACKMAN: You have a firm contract with them now and your over-all success is no longer a factor in the fixing of the air mail rate?

Mr. SYMINGTON: We are on our own under the firm contract and we are going to run our own lines.

Mr. JACKMAN: As my friend Mr. Hanson would have said, you are no longer on the wing of the post office?

Mr. SYMINGTON: We may have flown on one wing of the post office but the other was on the public. At any rate we are flying our own line now.

The CHAIRMAN: Is that O.K., gentlemen? Now, we have a problem to solve. It is two minutes to six. Do you want to go into these statements with the auditors or not?

Mr. SYMINGTON: They are set out in great detail.

The CHAIRMAN: We have asked quite a few questions about them. Can we adopt the report and auditor's statement? I will tell you one difficulty we have; we can get a committee room at 11.30 tomorrow morning for a while. Now, if you are not content to accept this statement we could sit tonight, but we have covered quite a lot of ground.

Mr. EMMERSON: I move that we adopt both reports.

Mr. MCCULLOCH: I second the motion.

The CHAIRMAN: It is moved that we adopt the report as contained in the book.

Carried.

The CHAIRMAN: Thank you, gentlemen. That is fine. I know that these gentlemen will appreciate your attitude as much as I do. We will meet again at the call of the Chair.

BALANCE SHEET AT 31st DECEMBER, 1945

ASSETS

Current Assets:		
Cash	$ 760,398 59	
Temporary Cash Investments	749,062 50	
Working Fund Advances	24,095 89	
Special Deposits	806 25	
Accounts Receivable	1,903,757 89	
Traffic Balances Receivable	199,587 25	
Balance Receivable from Agents	42,233 93	
Material and Supplies	1,234,398 68	
Interest Receivable	11,250 00	
Other Current Assets	60,126 90	$4,985,717 88
Deferred Charges:		
Prepaid Charges	$ 3,486 43	
Prepaid Group Life Insurance	11,713 03	
Research and Development Expense	124,640 11	
Other Deferred Charges	11,800 59	151,640 16
Insurance Fund		1,109,577 75
Investments in Affiliated Companies		3,262 00
Capital Assets:		
Property and Equipment	$7,362,640 48	
Less Accrued Depreciation	*3,848,266 10*	3,514,374 38
		$9,764,572 17

LIABILITIES

Current Liabilities:		
Accounts Payable	$1,405,110 95	
Traffic Balances Payable	14,479 36	
Air Travel Plan Deposits	525,725 00	
Salaries and Wages	211,683 10	
Other Current Liabilities	178,310 39	$2,335,308 80
Reserves:		
Insurance	$1,109,577 75	
Inventory	195,000 00	1,304,577 75
Capital Stock:		
Common Stock Authorized—Par Value $25,000,000.		
Common Stock Subscribed—Par Value	$5,000,000 00	
Less Uncalled Subscriptions to Common Stock	400,000 00	4,600,000 00
Surplus:		
Balance at 1st January, 1945	$1,491,913 13	
Surplus for Year 1945	32,772 49	1,524,685 62
		$9,764,572 17

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1945, and subject to our report to Parliament, we certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1945, and that the relative Income Account for the year ended the 31st December, 1945, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1946.

INCOME ACCOUNT

	1945	1944
Gross Revenue:		
Passenger	$ 5,462,939 77	$ 4,456,767 45
Mail	4,250,939 06	3,802,395 26
Express	307,386 62	326,236 18
Excess Baggage	53,790 04	50,279 72
Incidental Services—Net	437,532 49	556,843 52
Total	$10,512,587 98	$ 9,192,522 13
Operating Expenses:		
Aircraft Operation, Maintenance and Depreciation	$ 6,032,353 64	$ 5,213,447 62
Ground Operation, Maintenance and Depreciation	3,218,016 52	2,872,546 79
Traffic and General Administration	954,605 00	813,541 24
Tax Accruals	45,296 42	48,852 76
	$10,250,271 58	$ 8,948,388 41
Interest Income—*Credit*	*29,620 64*	*19,160 96*
Income Charges	29,164 55	25,885 39
Interest on Capital Invested	230,000 00	230,000 00
Total	$10,479,815 49	$ 9,185,112 84
Surplus	$ 32,772 49	$ 7,409 29

STATISTICAL DATA

	1945	1944
Route Mileage Operated	5,299	5,299
Plane Miles Flown—Revenue	10,506,075	9,110,474
Plane Miles Flown with Revenue Mail	10,127,243	9,046,866
Plane Miles Flown—Non-Revenue	1,040,152	924,331
Revenue Passengers Carried	183,121	156,884
Percentage of Passenger Occupancy	84	84
Average Passenger Journey—Miles	579	538
Air Mail Carried—Pounds	3,429,232	3,739,105
Express Carried—Pounds	950,323	856,016
Excess Baggage Carried—Pounds	311,612	261,731

AIRCRAFT OPERATION, MAINTENANCE AND DEPRECIATION

		1945	1944
601	Flying Personnel	$1,047,762 32	$ 842,053 25
602	Flying Personnel Supplies and Expenses	182,108 34	118,001 67
603	Aircraft Engine Fuels	1,303,157 34	1,147,161 09
604	Aircraft Engine Oils	47,905 10	39,515 42
605	Passenger Supplies and Expenses	26,710 76	22,754 04
605	Passenger Meals (Aircraft)	203,860 40	212,871 18
605	Passenger Interrupted Flight Expenses	53,710 78	42,668 79
607	Clearance Fees	15,995 16	18,567 35
608	Servicing—Labour and Supplies	607,649 61	561,972 60
611	Aircraft Repairs	702,484 51	642,842 33
612	Aircraft Propeller Repairs	30,866 34	44,185 64
613	Aircraft Instrument Repairs	62,685 19	2,097 10
614	Aircraft Engine Repairs	597,935 15	570,084 24
615	Aircraft Communication Equipment Repairs	42,519 55	49,932 73
616	Miscellaneous Flying Equipment Repairs	36,870 28	28,680 26
617	Flying Equipment Insurance	141,763 00	177,981 25
618	Liability and Compensation Insurance	132,385 73	105,879 83
620	Other Flying Expense	10,323 74	4,574 39
625	Aircraft—Depreciation	449,270 95	304,230 21
625	Propeller—Depreciation	36,931 70	29,016 17
626	Aircraft Engines—Depreciation	276,295 22	223,520 59
627	Aircraft Communication Equipment—Depreciation	22,782 28	23,715 46
628	Miscellaneous Flying Equipment—Depreciation	380 19	1,142 03
		$6,032,353 64	$5,213,447 62

GROUND OPERATION, MAINTENANCE AND DEPRECIATION

		1945	1944
631	Superintendence	$ 368,702 81	$ 315,021 66
632	Airport and Hangar Employees	972,165 65	812,191 97
633	Communication Operators	293,427 61	241,530 13
636	Travelling and Office Expenses	440,613 78	385,596 77
637	Light, Heat, Power and Water	95,811 04	79,718 62
638	Rent of Fields, Buildings and Offices	133,506 87	106,383 91
639	Rent and Expense of Motor Vehicles	27,861 74	24,419 43
641	Communication Equipment Repairs	55,396 36	59,270 29
643	Hangar Equipment Repairs, Supplies and Expenses	32,976 37	23,977 28
644	Shop Equipment Repairs	37,012 35	39,325 80
645	Motor Vehicles Repairs	32,466 48	29,345 89
647	Furniture, Fixtures and Office Equipment Repairs	16,897 42	22,771 86
648	Miscellaneous Ground Equipment Repairs	12,055 08	10,093 69
649	Buildings and Other Improvements Repairs	64,159 37	76,748 47
650	Shop Expenses—Indirect Labour and Material	181,408 89	189,792 83
651	Stores Expense	114,580 13	103,181 33
652	Stores Expense—Inventory Adjustments	*29,776 71*	*7,138 65*
653	Buildings, Material and Ground Equipment Insurance	12,403 08	10,826 54
654	Ground Liability and Compensation Insurance	28,142 10	27,303 01
656	Other Ground Expenses	93,611 79	90,576 67
656	Express Expenses	115,598 90	121,080 37
660	Depreciation on Ground Facilities	118,995 41	110,528 92
		$3,218,016 52	$2,872,546 79

TRAFFIC AND GENERAL ADMINISTRATION

		1945	1944
681	Salaries and Wages—Traffic	$ 304,202 53	$ 234,306 67
682	Travelling and Office Expenses—Traffic	78,738 03	67,922 66
683	Rent of Traffic Offices	37,922 00	29,413 25
684	Agency Commissions	27,376 64	27,632 28
685	Advertising	64,197 83	64,285 69
687	Other Traffic Expenses	7,232 64	10,286 05
691	Salaries and Wages—General	197,142 40	155,851 34
692	Travelling and Office Expenses—General	39,146 04	27,249 66
693	Office Rentals—General	....	625 50
694	Administration Charges from Affiliated Companies	50,000 00	45,000 00
695	Pensions	125,781 92	133,220 14
696	Insurance	1,865 20	1,876 35
698	Other General Administration Expenses	20,999 77	15,871 65
		$ 954,605 00	$ 813,541 24

GENERAL TAXES

699	General Taxes	$ 45,296 42	$ 48,852 76

TRANS-CANADA AIR LINES

15th. March, 1946.

THE HONOURABLE THE MINISTER OF RECONSTRUCTION AND SUPPLY,
OTTAWA, CANADA.

SIR,—Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the *Trans-Canada Air Lines* for the year ended the 31st. December, 1945, and we now submit our report thereon.

The Air Lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our audit certificate appended to the accounts published by the Air Lines, we make the following comments on the income account and balance sheet:—

Income account

The income account reflects the results of air operations in Canada, the United States and Newfoundland and of agency services rendered mainly to the Canadian Government Trans-Atlantic Air Service and the British Overseas Airways Corporation.

Mail revenue is based on the composite rate of 41.98 cents per plane mile flown in approved mail services in accordance with the Trans-Canada mail contract, as compared with 42.03 cents in 1944.

The surplus amounting to $32,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before interest and depreciation	$	1,167,000
Less: interest		230,000
Surplus before depreciation	$	937,000
Less: depreciation		905,000
Surplus	$	32,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Administrative charges by Canadian National Railways;

(*b*) Rentals of landing fields, hangars and other buildings, airport offices etc;

(*c*) Personnel training costs;

(*d*) Major overhauls of flying equipment operating on extended service life;

(*e*) Pensions covering

(I) Company's portion of accruals under the Air Lines 1943 plan, and

(II) Company's portion of accruals for transferred employees remaining under the C.N.R. 1935 plan;

(*f*) Insurance premiums on risks carried both by the insurance fund and outside underwriters, and

(*g*) General taxes.

Interest is applied at the fixed rate of 5 per cent on the "Capital Invested" in accordance with the requirements of the Trans-Canada Air Lines Act, 1937. For the purposes of the act, the paid-up capital stock is taken as representing the "Capital Invested".

Depreciation of flying equipment is based on estimated "service year" life for airframes and "flying hour" life for engines, propellers and hubs. Depreciation of ground facilities is based on the estimated "service year" life. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of capital assets.

Administrative charges by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continue to act in such capacities without remuneration.

Rentals of landing fields, based generally on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of hangars and other buildings, airport offices, etc., are paid to the same agencies in those cases where the T.C.A. has not

constructed such facilities. In relation to all agencies both in Canada and abroad, the T.C.A. is in the same category as the privately owned lines with respect to the use and rentals of landing fields and other aviation facilities.

The surplus for the year shows an increase of $25,000 in comparison with 1944. The increased gross revenue was offset largely by increased costs of operation and maintenance; depreciation provision for additional equipment and increased traffic and general administration expenses. An important factor in the increased costs of operation was the extensive personnel training program carried out in anticipation of the expansion of air services in Canada and to the United States. The costs of personnel training for the Atlantic overseas operations were charged to the Canadian Government Trans-Atlantic Air Service.

Balance Sheet

Temporary cash investments are represented by Dominion of Canada securities held for general corporate purposes free of any Reserve and their year-end market value exceeded the book figure.

Current assets exceed current liabilities in the amount of $2,650,000 equivalent to a working capital ratio of 2.1 to 1. This compares with $2,611,000 and 2·6 to 1 respectively in 1944. The working capital position of the Air Lines is maintained under conditions similar to those prevailing in privately owned enterprises financed only by way of share capital. The Air Lines differs form the National System and West Indies Steamships in that is has no Government loans against which the cash from surpluses is to be applied.

The deferred charge for research and development expense is composed of engineering and other staff costs, shop work, etc., in connection with the manufacture of the DC-4 aircraft.

The insurance fund is composed principally of Dominion of Canada securities together with cash. The year-end market value of the securities exceeded the book figure. There were no major loss claims reported outstanding at the date of the balance sheet but it is well to bear in mind that the risk coverage includes, inter alia, 100 per cent passenger liability and damage to the property of others. The fund increased $227,000 during the year.

Investments in property and equipment are carried on the basis of cost. The net additions and betterments during the year amounted to $701,000, the principal expenditures being for the purchase of three DC-3 aircraft including engines, conversion thereof and the purchase of two spare power plant assemblies.

Accrued depreciation covers the period from the inception of operations in 1937 to 1945.

The inventory reserve relates to the potential loss from surplus stores based on the presently estimated service life of the Lockheed aircraft. During the year the reserve was reduced $23,000.

The amount of the paid-up capital stock remained unchanged in 1945. The authorized capital stock, however, was increased from $5,000,000 to $25,000,000 during the year under the 1945 amendment to The Trans-Canada Air Lines Act, 1937.

Surplus covers the years 1940 to 1945 inclusive.

In respect of pension plans, it should be noted that:—

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the company and employees presently in service are invested through the separately administered pension trust fund, the accounts of which are not included with those of the Air Lines. The assets of the separate pension trust fund amounting to $877,000 are in the form of Dominion of Canada securities together with accrued interest and cash. Apart from the foregoing, the company has made provision in its accounts covering employees' contributory rights not yet exercised.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered pension trust fund under that plan, the accruals for which the company is liable in respect of transferred employees being paid to the Canadian National Railways.

Where foreign currencies are involved, the accounts of the Air Lines are stated in Canadian funds converted at the par of exchange.

The test audit of the Air Lines for the year 1945 was similar in scope to that of the National System previously outlined in this report.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The Committee adjourned at 6.00 p.m. to meet at the call of the chair.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

No. 5

FRIDAY, AUGUST 16, 1946

MINUTES OF PROCEEDINGS AND THIRD REPORT TO HOUSE OF COMMONS

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1946

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
FRIDAY, 16th August, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs Clark, Belzile, Gibson (*Comox-Alberni*), Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch and Nicholson—10.

The Chairman read the draft of the Third Report of the Committee.

Consideration followed.

On motion of Mr. Gibson, it was unanimously

Resolved, That there be inserted a paragraph to indicate the appreciation of the Committee of the valuable contribution to the national war effort of both the management and employees of the nationally owned, operated and controlled transportation systems.

On motion of Mr. Belzile, it was

Resolved, That the draft of the Third Report as thus amended, be adopted presented to the House and concurrence therein be asked.

At 10.50 o'clock a.m., the Committee adjourned *sine die.*

T. L. McEVOY,
Clerk of the Committee.

65376—1½

REPORT TO THE HOUSE OF COMMONS

MONDAY, 19th August, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee had referred to it, on the 12th, 15th and 16th April and 8th May, 1946, the following matters, namely:

(a) Annual Report of the Canadian National Railways System for the year ended December 31, 1945;

(b) Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1945;

(c) Annual Report of the Canadian National Securities Trust for the year ended December 31, 1945;

(d) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1945;

(e) Report to Parliament of the firm of George A. Touche and Company, auditors of the accounts of the Canadian National Railways System, Canadian National Railways Securities Trust, Trans-Canada Air Lines and Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1945;

(f) Financial Budget of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited, for the year 1946.

Your Committee held 9 meetings in the course of which the said Reports were severally examined and unanimously adopted.

Your Committee noted with satisfaction that the income surplus of the Railway System in 1945 was $24,756,000 but Mr. R. C. Vaughan, C.M.G., Chairman and President, Canadian National Railways System, pointed out to the Committee how increases in wage rates and material prices were constantly increasing the cost of operation and he warned that as traffic recedes from its wartime intensity such higher costs would prevent a continuance of the favourable financial results which the System has been able to report for the past five years. Mr. Vaughan also gave to the Committee a statement with respect to the Fixed Charges of the System which contained a recommendation that the Government accept Income Bonds of the Canadian National Railway Company in payment of the amount owing by the Railway to the Government for repatriation of British-held securities of the Canadian National Railway Company.

The financial budget of the Railway System for the calendar year 1946 shows the estimated income surplus to be $7,500,000 with the net requirements in the Capital Budget estimated to be $22,550,000. This includes $9,777,000 for retirement of funded debt and $8,863,000 for the purchase of new rolling stock and $7,000,000 for the acquisition of the lines of the Manitoba Railway Company. The Budget for 1946 was approved.

Your Committee reviewed the Canadian National (West Indies) Steamships, Limited, results for the year 1945 which produced a net income surplus of $1,116,000. A further statement to the Committee by Mr. Vaughan reviewed at length the operations of the Line from the inception of the service in 1929.

The Financial Budget of the Steamships Company for the year 1946 shows an estimated income surplus of $416,000 and capital requirements of $4,200,000 for the purchase of four vessels. This purchase is the initial step in replacing vessels lost during the war. No Government funds are required as the cost will be financed from the Company's Steamship Replacement Fund. The Budget for 1946 was approved.

In reviewing the Trans-Canada Air Lines' accounts for the year 1945 it was noted that the authorized capital stock was increased from $5,000,000 to $25,000,000 under the 1945 amendment to the Trans-Canada Air Lines' Act, 1937. In its 1946 Budget the Canadian National Railway Company indicated it may be required to meet additional calls on this capital stock to the amount of $14,000,000.

Your Committee is most anxious to put on record an appreciation of the valuable contribution to the national war effort of both the management and the employees of the nationally owned, operated and controlled transportation systems.

The task of your Committee was facilitated by the valuable assistance of Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways System, of Mr. H. J. Symington, C.M.G., K.C., President of Trans-Canada Air Lines and their respective officers who willingly supplied all information requested of them. Your Committee desires to place itself on record in appreciation of this fact.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

By leave of the House,
Concurred in this day.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

NO. 1

MONDAY, APRIL 28, 1947
TUESDAY, APRIL 29, 1947

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1946)

WITNESSES

Mr. R. C. Vaughan, C.M.G., Chairman and President, Canadian National Railways;
Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;
Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

ORDERS OF REFERENCE

THURSDAY, 13th March, 1947.

Resolved,—That a Sessional Committee on Railways and shipping owned, operated and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that, notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs.: Belzile, Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Harkness, Hatfield, Hazen, Jackman, Kuhl, LaCroix, Lockhart, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot, Reid, Warren.

TUESDAY, 15th April, 1947.

Ordered,—That the name of Mr. Lapointe be substituted for that of Mr. Picard on the said Committee.

TUESDAY, 22nd April, 1947.

Ordered,—That the Annual Reports for 1946 of the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Canadian National Railways Securities Trust, tabled this day, be referred to the said Committee.

Ordered,—That the Resolution passed by the House on March 4, 1947, referring Estimates for the financial year 1947-48 to the Committee of Supply, be rescinded in so far as the said Resolution relates to Vote 434, Maritime Freight Rates Act—Canadian National Railways;

Vote 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote 479, Prince Edward Car Ferry and Terminals—Deficit 1947.

Ordered,—That the said Votes Nos. 434, 435 and 479 be referred to the said Committee.

WEDNESDAY, 23rd April, 1947.

Ordered,—That the Financial Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, for the calendar year 1947, tabled this day, be referred to the said Committee.

THURSDAY, 24th April, 1947.

Ordered,—That the Report to Parliament of George A. Touche and Company, Auditors for the Canadian National Railways System, for the year ended December 31, 1946, tabled this day, be referred to the said Committee.

MONDAY, 28th April, 1947.

Ordered,—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Ordered,—That the quorum of the said Committee be reduced from 12 to 8 members, and that Section 3 of Standing Order 63 be suspended in relation thereto.

Ordered,—That the Annual Report of the Trans-Canada Air Lines for the year ended December 31, 1946, tabled this day, be referred to the said Committee.

WEDNESDAY, April 30, 1947.

Ordered,—That the name of Mr. Dion (*Lake St. John-Roberval*) be substituted for that of Mr. LaCroix on the said Committee.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, April 28, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That it be granted leave to sit while the House is sitting;

3. That its quorum be reduced from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, 28th April, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11.00 o'clock a.m.

Members present: Messrs. Chevrier, Clark, Emmerson, Harkness, Hazen, Jackman, Kuhl, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Mutch, Nicholson and Warren.

On motion of Mr. McCulloch (*Pictou*), seconded by Mr. LaCroix,—

Resolved,—That Mr. S. M. Clark be Chairman of this Committee.

Mr. Clark took the chair. He thanked the Committee for the honour conferred on him and expressed the wish to discharge his duties to the satisfaction of all.

On motion of Mr. Lockhart,—

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of the minutes of proceedings and evidence.

On motion of Mr. Mutch,—

Resolved,—That the Committee ask leave to sit while the House is sitting.

On motion of Mr. McCulloch (*Pictou*),—

Resolved,—That the House be asked to reduce the quorum of the Committee from 12 to 8 members.

The Committee considered the agenda for future meetings. After some discussion it was agreed that the Annual Report, 1946, of the Canadian National Railways would be considered at the next meeting and the Committee would proceed, as convenient, to other questions on the agenda.

The Committee adjourned until Tuesday, 29th April, at 11.00 a.m.

TUESDAY, 29th April, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Harkness, Hatfield, Hazen, Jackman, Kuhl, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Lapointe, Pouliot, Reid and Warren. (21).

Mr. R. C. Vaughan, President, Canadian National Railways, was called. He read the 1946 Annual Report of the Canadian National Railways and was examined thereon. He was assisted during the examination by Messrs. N. B. Walton, Executive Vice-President, and T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

The witnesses retired.

The Committee adjourned at 1.00 o'clock p.m. until 4.00 o'clock p.m. this day.

The Committee resumed at 4.00 o'clock p.m. The Chairman, Mr. Clark, presided.

Members present: Messrs. Bourget, Clark, Emmerson, Hatfield, Hazen, Jackman, LaCroix, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Pouliot, Reid and Warren. (17).

Consideration was resumed of the 1946 Annual Report of the Canadian National Railways.

Messrs. Vaughan, Walton and Cooper were recalled and further examined.

On motion of Mr. McCulloch (*Pictou*),—

Resolved,—That the 1946 Annual Report of the President of the Canadian National Railways be adopted.

The Committee adjourned until Wednesday, 30th April, at 10.00 a.m.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 29, 1947.

The Standing Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, we have a quorum so let us come to order. First may I, on behalf of the committee, extend a welcome to the C.N.R. officials who are making their annual visit to us; we are always glad to see them. The arrangement of this room is not the best and we will see what we can do about it before our meeting this afternoon.

Mr. LOCKHART: Did you say this afternoon's meeting?

The CHAIRMAN: That is, if the committee agrees, Mr. Lockhart; I will put it that way.

Mr. LOCKHART: That sounds much better.

The CHAIRMAN: I believe our practice in the past has been to ask Mr. Vaughan to read his report and after making that report to make such comments as he wishes and then he will be open for questioning. If that is agreeable to the members of the committee I shall ask Mr. Vaughan to proceed now with his report.

Mr. R. C. VAUGHAN, C.M.G. (President, Canadian National Railways):

MONTREAL, March 15, 1947.

The Honourable LIONEL CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

SIR,—In conformity with The Canadian National-Candian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1946.

The repatriation of Canada's armed forces has been completed and during the year large numbers of wives and dependents were also carried from dockside to various parts of the country. The change-over from a war economy to one of peace perplexed the world with urgent and serious problems, of which Canada had its share, and produced for the Canadian National System, as a vital public utility, a difficult year. Return to a normal flow of traffic was hampered by reconversion in industry, by strikes, and by shortages of rolling stock, conditions common to all railways in Canada and the United States.

Nevertheless, railway traffic moved in heavy volume and, measured in train miles, was only 3·8 per cent below the traffic of 1945. In revenue earned, however, the decrease was 7·7 per cent. The savings in operating costs from the reduction in traffic were far more than offset by increased rates of pay and increased prices for fuel and the materials used in railway operation and maintenance.

With revenues reduced and expenses increased, it was inevitable that the net income should be sharply decreased in 1946 as compared with the preceding year.

The following is a summary of the operating results. The full income statement appears on the opposite page.

	1946	1945
Operating revenues	$400,586,025 89	$433,773,393 56
Operating expenses	357,236,718 29	355,294,048 48
Net operating revenue	$ 43,349,307 60	$ 78,479,345 08
Taxes, equipment and joint facility rents	11,790,360 40	10,601,406 83
Net railway operating income	$ 31,558,947 20	$ 67,877,938 25
Other income, less deductions—*Credit*	*4,160,579 72*	*3,206,334 49*
Interest on funded debt—public	$ 23,358,514 18	$ 26,021,784 56
Interest on government loans	21,322,583 23	20,306,358 18
Deficit 1946—Surplus 1945	$ *8,961,570 49*	$ 24,756,130 00

Results of Operations

Operating Revenues. There was a recession from the high levels reached during the war years, but nevertheless the gross receipts during 1946 totalled $400,586,000. This is an indication of the tremendous transportation services furnished by the National Railway System during the reconversion period.

The 1946 revenues were 7·7 per cent below those of the previous year. Traffic commenced to decline in August, 1945, and the reduction continued at an increasing pace until June, 1946, when it began to level off. In the last quarter of the year the downward trend was reversed and there was an increase of 3·7 per cent as compared with the same period of 1945.

Passenger train service revenue (fares, mail, express, dining and sleeping cars etc.) in 1946 was less by $17,267,000, and revenue from the carriage of grain decreased $14,726,000. The decreases in these two sources of revenue account, in the main, for the reduction in gross receipts.

The freight rate increases authorized by the Interstate Commerce Commission of the United States effective July 1, 1946, added $4,290,000 to the gross revenues of the System.

Operating Expenses. In passenger service, passenger miles decreased 31·4 per cent and revenues from fares 23·1 per cent, while train miles decreased only 4·1 per cent. Passengers per car mile decreased by 20 per cent. These figures reflect a change in the type of traffic.

In freight service, although car loadings were greater by 2·6 per cent than in 1945, revenue decreased 5·1 per cent and tons hauled 1·2 per cent. The average length of haul decreased 9·8 per cent. The volume of grain moved was less by 27 per cent. The decrease in the amount of grain handled and the change in the character of commodities hauled resulted in a lighter per car load of 7·9 per cent, and net train load of 7·3 per cent. This condition—more cars carrying lighter loads for shorter distances—was one of the factors which made it impossible to reduce costs in proportion to the reduction in revenues.

Wage increases added $17,821,000 to operating costs. The cost of fuel and materials continued to rise, resulting in an estimated increase in operating costs of $4,338,000 as compared with the previous year.

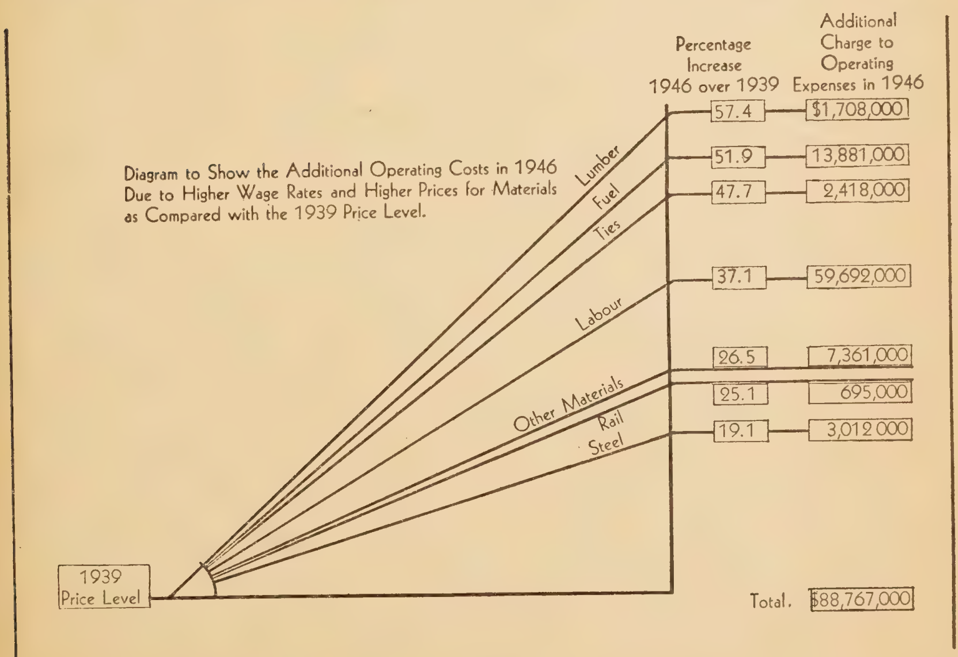
Commencing in 1942 and continuing through 1945, reserves were accumulated against a possible decline in inventory values and for repairs and renewals to road and equipment which had to be deferred due to shortages of labour and material. These reserves were built up to a total of $46,524,000. During 1946, some progress was made in overtaking deferred maintenance and $13,524,000 was taken from these reserves and credited to the expense accounts which had been charged in the first instance.

For depreciation on rolling stock the total charge to operating expenses was $17,701,420 as compared with $16,974,015 in the previous year. The rates remained the same, but the investment in rolling stock was greater.

The number of employees throughout the year averaged 105,353. The payrolls for the year totalled $237,335,781.

The official cost of living index in Canada stood at 127·1 per cent in December, 1946, against 103·8 per cent in December, 1939, an increase of 22·45 per cent. For the railway the cost of living means the cost of labour and materials. Labour costs increased 37·1 per cent between 1939 and 1946 and the cost of materials increased 35·9 per cent during the same period. The additional operating costs in 1946 due to higher wage rates and material prices as compared with the 1939 price level amounted to $88,767,000.

In previous reports the Directors have called attention to mounting operating costs. They pointed out that with freight rates and passenger fares frozen at their pre-war levels the railway was dependent upon additional volume of traffic to produce satisfactory financial results and that in the event of any substantial decrease in traffic, not otherwise compensated for, a continuance of favourable financial results would not be possible. The developments in 1946 demonstrated the truth of that warning. The higher costs, which have been obscured by peak traffic conditions, became apparent as traffic volume diminished, and their impact has not yet been fully felt. The wage increases of June 1, 1946, will be in effect for the full year in 1947. It is estimated that material prices will be 10 per cent higher. Thus operating costs will be some $20 millions greater than in 1946. Confronted with these facts the directors approved of the Canadian National Railways joining with other Canadian railways in making application, through the Railway Association of Canada to the Board of Transport Comissioners for an increase in freight rates. This application is now being heard by the Board.



Net Operating Revenue.—After deducting operating expenses of $357,236,718 from operating revenues of $400,586,025, the net operating revenue was $43,349,307. The corresponding amount in 1945 was $78,479,345.

Net Income Result.—After making provision for various charges consisting of taxes, equipment and joint facility rents, exchange and discount, also for various income credits such as dividends and interest income, the results of hotel and subsidiary company operations, etc., the net income available for the payment of interest was $35,719,527, equal to a return of 1·78 per cent on the total capitalization of the System. Interest payments due to the public and to the government totalled $44,681,097. Thus, after providing for interest, there was an income deficit for the year of $8,961,570, as compared with an income surplus of $24,756,130 in 1945.

CAPITAL EXPENDITURES

The capital expenditure during the year amounted to $16,309,797, details of which are given on page 18.

New equipment acquired included 16 diesel-electric locomotives and 856 box cars.

In September the lines of the Manitoba Railway Company, which had been under long-term lease, were purchased for the capital sum of $7,000,000 resulting in an annual saving of $106,000.

Surveys were completed for the new line of railway in Quebec from Barraute to Kiask Falls, which will permit of the development of the natural resources of the Bell River valley north of the National Transcontinental Railway. The contract has been awarded for the construction of 39 miles in 1947. The length of the line is approximately 55 miles.

Looking toward the development of the valuable building sites above the track area of the Company's Central Station in the centre of the business section of the city of Montreal, the Directors submitted to the government a proposal for the construction of an office building and an hotel on the south side of Dorchester Street, between Ste. Geneviève and Mansfield Streets, one wing of the office building to be devoted to the international aviation organizations now having their world headquarters in Montreal. The project was approved in principle and authority given for the immediate construction of the aviation wing and the essential service facilities common to the whole project. The aviation wing will contain the offices of the International Civil Aviation Organization and the International Air Transport Association and will include ticket offices, waiting rooms and baggage rooms for the various air line companies. The contract for the structural steel has been awarded and work will begin as soon as conditions permit.

FINANCE

The capital debt of the System was reduced during the year by $15,193,307.43. Details are as under:

Funded Debt Retirements		
$2\frac{1}{4}$% 7-year Gtd. Bonds, matured Jan. 15, 1946...	$15,000,000 00	
$6\frac{1}{2}$% S.F. Deb. Bonds, matured July 1, 1946....	23,752,000 00	
4% St. John & Quebec Ry. Debenture Stock	622,657 40	
Equipment Trusts—annual principal payments ..	3,150,000 00	
Various securities repatriated	232,342 59	
Reduction in Funded Debt		$42,756,999 99
New Government Loans		
Loans to retire the first two bond issues referred to at par, Atlantic & St. Lawrence Railroad stock and various securities repatriated at market value	$38,713,077 75	
Loan under Equipment Hire Purchase Agreement	2,345,949 56	
	$41,059,027 31	
Government Loans Repaid		
Loans repaid out of 1945 surplus earnings	$ 4,756,130 00	
Equipment Hire Purchase annual principal payments	6,193,793 46	
Payment under Financing and Guarantee Act 1945	2,545,411 29	
	$13,495,334 75	$27,563,692 56
Reduction in debt during the year		$15,193,307.43

Details of the funded debt and government loans and of the interest charges thereon are shown on pages 18 and 19.

GENERAL

The total number of shipments handled by Canadian National Express in 1946 was 18,937,707, an increase of 1,873,991 (10·98 per cent) over 1945. Traffic handled and revenues earned were the largest in the history of the department. The greater proportion of the traffic was general merchandise.

Canadian National Telegraphs handled more telegrams and cablegrams than in any previous year, the total number exceeding twelve millions. The demand for leased telegraph, telephone and broadcasting circuits continued at a high level.

With a view to the expansion of commercial telegraph facilities, experimental work was advanced during the year on a radio relay system, Montreal-Ottawa-Toronto. These experiments are conducted by Canadian National Telegraphs in collaboration with Canadian Pacific Communications and the National Research Council. A radio link between Toronto and Hamilton will be included.

During the year, the railway re-opened its traffic office in Hong Kong and established a new office in Calcutta.

Following a decision that the company would undertake its own testing of materials, a well equipped chemical and physical laboratory has been established in Montreal.

Industry is making increasing demands upon the services of the company's department of research and development. Based on a broad experience in this field, on extensive source material and surveys on the ground, detailed economic studies are made by this department, ensuring a scientific and co-operative approach to the problems connected with the location and servicing of industrial plants.

The Department of Colonization and Agriculture is active in promoting the settlement of agricultural lands served by the railway. During the year, 1,439 families and 690 single men were established on 253,742 acres of land and 4,922 persons were placed in agricultural, forestry and mining employment. The department brought a limited number of British immigrants into Canada and is in a position to deal with large-scale movements when it is called upon to do so.

An agreement was completed with the Canadian Pacific Railway for the abandonment of 12·2 miles of Canadian National line between Trelle Junction and Morinville, Alberta, and the joint use of 20·2 miles of the Northern Alberta Railways between N.A.R. Junction and Morinville. The appeal to the Governor in Council from the order of the Board of Transport Commissioners authorizing the abandonment of 64·7 miles of Canadian Pacific line between Forth (near Red Deer) and Ullin, Alberta, was dismissed and an agreement between the two railways is being negotiated.

The Interstate Commerce Commission authorized the abandonment of 49·08 miles of line of the Grand Trunk Western Railroad between Greenville and Muskegon, Michigan, and service was discontinued as of May 30, 1946.

The directors desire to express appreciation of the excellent work done by the officers and employees throughout the system during a busy and difficult year.

Practically all the employees who served in the Armed Forces during the war have now been re-established in the company's service and many war veterans not previously in the employ of the company have been engaged.

I have no special comments to make, gentlemen, except to say that we have had a very difficult year. We are at your service here as long as you want us to answer any questions which may come to your minds in connection with our operations for the year.

Mr. Reid: Mr. Vaughan, at the top of page 6, you speak of revenue from passenger and train service and then in that clause you give only the decrease in revenue for grain. Why did you not complete the picture? You gave us all the passenger train services, but when you come to the revenue you only give grain. Why did you single out grain, and why did you not give the total decrease in revenue from all freight when you were speaking of all passengers?

Mr. Vaughan: I think Mr. Cooper can answer that question.

Mr. Cooper: The decrease in the passenger train service revenue and grain were the two outstanding decreases in the revenue account. Really, these two items account for the total decrease in gross receipts. If you notice they add up to about $32,000,000—that is, these two items account for $32,000,000 out of the decrease of $33,000,000 in gross receipts.

Mr. Reid: If you are comparing the decreases in revenue, all revenue, grain is one of the major matters: what would it be as compared to the decrease in passenger revenue? You have given the figures $14,726,000 for grain and $17,267,000 as the decrease in passenger service all over.

Mr. Cooper: Let us turn to page 13. At the top of the page you will see all the revenue accounts set out in detail. If you wish to see the decreases in particular classifications of revenue they are there. Does that answer your question?

Mr. Reid: Yes, I think so. What is the ratio of expense as between wages and the other outlays? What proportion of the total outlay is wages?

Mr. Cooper: Now, shall we turn to page 28? On the right-hand side of that page you will see the distribution of our operating expenses. Labour absorbed 61·79 per cent of our total expenses; fuel, 10·82 per cent; and other things, 27·39 per cent.

Mr. Reid: That is right. With regard to hotels, I notice the government have authorized a new hotel at Montreal. How many of your hotels are paying?

Mr. COOPER: Every one of our hotels made money in 1946. The net operating revenue of our hotels in 1946 was $1,102,000. I will read the hotels to you, if you wish: the Charlottetown Hotel, $29,000; the Pictou Lodge, $1,956; the Nova Scotian, $139,946; the Chateau Laurier, $383,036; the Prince Arthur, $47,819; Manaki Lodge, $20,256; Fort Garry, $111,128; Prince Edward, $6,878; the MacDonald, $101,892; Jasper Park, $114,085; and the Bessborough at Saskatoon, $145,303.

Mr. REID: What are your outlays for the new hotel in the business section of Montreal?

Mr. COOPER: The expenditure to date?

Mr. REID: Yes.

Mr. COOPER: We have spent about $24,000 making studies of the project.

Mr. VAUGHAN: This expense has been almost entirely in connection with this new International Aviation building. It is the first building we are proceeding with.

Mr. REID: With regard to the officers at Hong Kong, what is the real purpose of having officers in Hong Kong when you have no sailing line between Vancouver and the Orient?

Mr. VAUGHAN: Of course, we are preparing in the first place for additional business to come, but our Hong Kong office does business with all steamship lines. We may get traffic from Hong Kong going via England, coming to Canada. We may get it either way or we may get it through Vancouver or Montreal. Here is a memorandum which may interest you.

"Hong Kong. Prior to the war C.N. maintained traffic organizations in Hong Kong and Singapore and our traffic department has for some time been watching closely developments in the Far East with a view to again establishing direct representation there in order that C.N. would, as in pre-war days, participate in the handling of freight and passenger traffic moving from the Orient.

Indications are that a much larger business will develop between China and Canada than was the case prior to the war. The Chinese government have a mission located in Ottawa for the purpose of purchasing Canadian materials and recently two new steamship companies have been formed and will operate services between Vancouver and China, the Philippines and Singapore. Other transportation interests are re-establishing connections and the Canadian Pacific have reopened offices in Hong Kong and Shanghai on a modified scale.

In view of these considerations the conclusion was reached that C.N. should set up a limited organization in the Orient with a view to surveying the situation on the ground, our future policy with regard to the setting up of a permanent organization to be decided when reports on these surveys are received. In accordance with this decision there has been appointed as general agent, a member of our traffic organization who has had considerable experience in the Orient."

That is to say, the purpose of opening that office is really to survey the situation and report later on when we will determine whether or not we will make that a permanent office.

Mr. REID: Was it in existence before the war?

Mr. VAUGHAN: Yes.

Mr. REID: It is not something new?

Mr. VAUGHAN: No, it was in existence before the war.

Mr. REID: What staff do you keep there and at what expense?

Mr. VAUGHAN: There is a very small staff. There is a general agent. I have not the number here, but we could get it for you. It is a very small staff, perhaps three or four in the office.

Mr. REID: Turning to page 8 would it be right for me to assume that in the reduction of capital debt the capital debt was first increased and then reduced by $15,193,000? I note $41,059,000 is the figure given for new loans. If you read the first sentence you would think the capital debt had really been reduced by $15,000,000. Am I right in assuming that—

Hon. Mr. CHEVRIER: Are you referring to page 8?

Mr. REID: Yes—it was first increased by $41,000,000 and then reduced by $15,000,000?

Mr. COOPER: That is so far as government loans is concerned. We borrowed from the government in 1946—

Mr. REID: So we are making no headway so far as the reduction of debt is concerned? It is true that the $15,000,000 is a reduction, but we have an increased debt taking the $15,000,000 odd from the $41,000,000 odd?

Mr. COOPER: No, sir, it was a net reduction in debt of $15,000,000. We reduced the funded debt held by the public by $42,000,000. We increased the debt held by the government by $27,000,000, making a net reduction of $15,000,000.

Mr. REID: I have one further question. I am glad you mentioned that the freight rates question is before the Board of Transport Commissioners. I have one question to ask in regard to that matter. It has been brought before the committee by the statement of the president.

Hon. Mr. CHEVRIER: Mr. Reid, perhaps you were not here yesterday. There was a discussion on that, and I hope we will be able to abide by the decision reached then. Perhaps I should not call it a decision. It was recalled that the speaker had made a ruling which applies to this committee as well. The ruling was to the effect that the freight rates application is now before the Board of Transport Commissioners and therefore *sub judice,* and that we should not enter into a discussion of what is now before the Board, but if some member wanted to ask a question of a general nature I do not think the president would refuse to answer it. I do not think that a member of the committee should be prevented from asking those questions.

Mr. REID: I have one general question. I remember the speaker of the House giving that ruling, but when the matter was mentioned here I thought it had come before the committee. In the report it is definitely mentiond that they are now before the Board of Transport Commissioners. My question probably is on the border line as to whether or not it is within the rules. It has to do with the two provinces which are not appearing before the Board on the hearing. I think that takes it out from being under the speaker's ruling. I am informed on fairly good authority that some assurance has been given by both railway companies that freight rates in Ontario and Quebec are not going to be reduced, and that is given owing to the fact the truck companies—

Hon. Mr. CHEVRIER: Not going to be increased?

Mr. REID: The truck companies are prepared to take all the freight. It is a serious question. I heard this from a fairly reliable source, that the reason for the silence of the two provinces and the fact they are not appearing before the Board is that some understanding has been given them by both the C.P.R. and the C.N.R. that freight rates will not be touched in the provinces of Ontario and Quebec.

Mr. VAUGHAN: I can say your information is not correct. There has been no such assurance given to anyone.

Mr. REID: I will accept that.

Mr. VAUGHAN: Freight rates in Ontario and Quebec will be increased.

Mr. REID: That clears up that matter.

The CHAIRMAN: I may say to the committee I have a copy of the ruling of the speaker here if any of the members would like to see it. Perhaps they have not a copy. The clerk says he has copies here. If you would like to have one he will distribute them. I hope we can keep away from this because it would lead to a lot of difficulties.

Mr. REID: I am not raising it further.

The CHAIRMAN: Fine.

Mr. JACKMAN: May I ask Mr. Vaughan what the estimate was as to 1946 results this time last year when we had the accounts before the committee?

Mr. VAUGHAN: I think it was a surplus of about $7,500,000.

Mr. JACKMAN: What did we overlook in making that estimate, wage increases?

Mr. VAUGHAN: We had a higher increase in wages than we expected to have, and materials increased to a greater extent than we expected. Those were the two main reasons.

Mr. EMMERSON: Did you take into consideration the change in the type of freight to be handled when you made the estimate last year?

Mr. VAUGHAN: Yes, we did take that into account, but we predicated our statement on the assumption that the increases in wages would not be as great as they were.

Mr. HAZEN: But you expected an increase in wages; you referred to that in your report last year?

Mr. VAUGHAN: There were applications then for various increases in wages, and we knew there would be negotiations in that connection, but we had taken the position for a long time that we could not afford to pay any increases in wages. Finally we did come to what we thought was a fair arrangement with our men.

Mr. HAZEN: You say that the carriage of grain has decreased. I was under the impression we had as much grain last year as we had the year before and it had to be moved, and that we were sending large quantities to the United Kingdom. How did that decrease take place?

Mr. VAUGHAN: The crop of the previous year was cleaned up early. If you will turn to page 30 you will find there was a decrease in wheat tonnage handled of 3,206,000.

Mr. HAZEN: Page 30?

Mr. VAUGHAN: Page 30, the top item. The decrease in grain is covered in the first six items there.

Mr. HAZEN: Was that due to lack of cars?

Mr. VAUGHAN: No, it was due to the fact there was not any more wheat to move. All the wheat was moved that was offered to the railways.

Mr. JACKMAN: What is the situation with regard to the carry-over for the 1947 results?

Mr. VAUGHAN: I think perhaps that figure is here some place. Have you that figure, Mr. Walton?

Mr. WALTON: I do not know that I have the actual figures. Discussions with the chairman of the Canadian Wheat Board indicated that there should be loadings on the Canadian National lines in the west of approximately 475 cars a day from the first of April until the end of the crop year, July 31st. Our loadings have been running about that figure, and it is estimated that will substantially clear up the 1946-47 crop before the new crop comes in.

Mr. NICHOLSON: Have you the figures for the percentage of the total wheat crop the Canadian National moved?

Mr. VAUGHAN: I think we have that. It is 40 odd per cent.

Mr. NICHOLSON: What per cent?

Mr. VAUGHAN: On western grain we moved to Fort William approximately 50·7 per cent as compared with 47·3 per cent the previous year, and to other points, Vancouver, New Westminster, etc., we moved 41 per cent.

Mr. NICHOLSON: As compared with what for the previous year?

Mr. VAUGHAN: Compared with 58 per cent the previous year. No, I am sorry, that is the C.P.R. The figure is 41·9 to Vancouver and west this year as against 51·7 last year. To Fort William we moved 50·7 this year as against 46·6 last year.

Mr. HAZEN: You submitted to the government a proposal for the construction of an office building and hotel on the south side of Dorchester street in Montreal?

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: The government evidently did not approve of the construction of that hotel at the present time, I should judge, from your report?

Mr. VAUGHAN: We are studying and preparing plans for the construction of the hotel, but the actual construction of it has not yet been approved. The only building we are proceeding with in the meantime is this first building which is known as the International Aviation building.

Mr. HAZEN: The proposal you submitted to the government gave what figure as to the estimated cost of this biulding you propose to construct?

Mr. VAUGHAN: I think it is about $4,750,000, but we will give you the figures.

Mr. COOPER: The cost of the International Aviation building—

Mr. HAZEN: I am asking for the estimated cost of the proposal for the construction of an office building and hotel, your proposal to the government?

Mr. COOPER: The estimated cost for a 700-room hotel was $10,000,000, and as to the offive building the estimated net cost was $6,750,000.

Mr. HAZEN: Apparently according to this report you did not get the approval of the government to go on with the 700-room hotel, but authority was given for the immediate construction of an aviation wing and the essential service facilities common to the whole project?

Hon. Mr. CHEVRIER: I wanted to interject a moment ago when you asked that question to say that the proposal was put before the government, and the government approved in principle of the proposal, that is, of the aviation building and of the hotel building, but determined that the aviation building was of extreme necessity and urgency at the moment, and authorized the Canadian National Railways to go ahead with that leaving the time for the construction of the hotel at a later date when materials and circumstances justify it.

Mr. HAZEN: There could not be any more expensive time to erect this proposed building which is going to cost $6,250,000 than the present time.

Mr. COOPER: We are not building the $6,750,000 building.

Mr. HAZEN: I understood you to say the hotel was $10,000,000 and the office building was $6,250,000?

Mr. COOPER: $6,750,000, but that included a building for the general offices of the railway as well as this International Aviation building.

Mr. HAZEN: According to your report you got authority for the immediate construction of the aviation wing?

Mr. COOPER: Yes, that is a wing of the $6,750,000 building.

Mr. HAZEN: I asked what is the estimated cost of that wing?

Mr. COOPER: $4,000,000.

Mr. HAZEN: And when do you propose to start its construction?

Mr. COOPER: We propose to start construction the beginning of May.

Mr. HAZEN: Then I will ask you as I asked before, is there any more expensive time that you could start the construction of this building than the present time?

Mr. VAUGHAN: There are very good reasons for constructing that building. As you know, these two international air organizations are in Canada. We want to keep them in Canada. They have no permanent place of abode. The arrangement which has been or will be made with these people will give us a very good return on the cost of construction of this building.

Mr. HAZEN: I was going to ask you about that. Perhaps you could give us some figures. To begin with why should the railway erect this building instead of the Trans-Canada Air Lines? Why should you be more interested in it than the Trans-Canada Air Lines?

Mr. VAUGHAN: Of course, it is our property. We have a vast amount of property in Montreal, and it is the best location in Montreal for a building of that kind. In fact in Montreal we have the best property for development of its kind of any city on the North American continent. We figure we have to start something on it. We have this opportunity to provide accommodation for these international organizations and at the same time give ourselves a fair return on the investment.

Mr. HAZEN: Did Trans-Canada Air Lines approach you about this? Were they interested in it?

Mr. VAUGHAN: They have agreed to take space there, but this was something that was originated by the railway.

Mr. HAZEN: As I understand it it is going to cost $4,000,000.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: What arrangements have you made to rent the space in that building when it is completed?

Mr. VAUGHAN: Mr. Cooper is the chairman of the committee which is handling that. He can give you full information on it.

Mr. COOPER: We have not concluded our agreement with the International Civil Aviation Organization. The council of that organization meets this morning, and I understand one of the matters that will be dealt with at the present meeting is the matter of the agreement with the Canadian National. We have had considerable discussions with them, and we have settled the main heads of agreement. The terms are considered satisfactory both to ICAO and to the railway company.

Mr. HAZEN: Will you go ahead before the agreement is completed?

Mr. COOPER: Well, I think that in the next week or two we shall have a commitment by ICAO.

Mr. HAZEN: The question I asked is will you go ahead before the agreement is completed?

Mr. COOPER: Yes, we intend to do that.

Mr. HAZEN: Do you think it is a wise policy?

Mr. COOPER: We commence construction at the beginning of May, and in the next two weeks we expect to have a firm commitment by ICAO, so we are only taking a chance on a week or two.

Mr. HAZEN: What is the proposed agreement that will be executed? What revenues do you expect to get from operating this building, and to whom are you going to rent it?

Mr. COOPER: I will give you the tenants first. The top six floors will be rented to the International Civil Aviation Organization. The next floor underneath that will be rented to the International Air Transport Association.

Mr. HAZEN: How many floors for the International Air Transport Association?

Mr. COOPER: One. Then Trans-Canada Air Lines will take one floor. Then there is one floor left for the various operating air lines which may wish to take this space in the building. Then on the Dorchester street level is the air line terminal which will be used as a consolidated air lines ticketing and baggage concourse.

Mr. HAZEN: For the six floors you are going to rent to the International Civil Aviation organization how much do you expect to get in rent?

Mr. VAUGHAN: Do you think we should divulge all that information here? I would rather give it privately to Mr. Hazen, if necessary.

Mr. HAZEN: I think the committee should know. You are proposing to make an investment of $4,000,000 of the funds of this company at a time when you are applying for an increase in freight rates. This is going to add materially to the costs of the company.

Mr. VAUGHAN: No, sir, it is not, because there will be a good return on it.

Mr. HAZEN: You say it is going to bring in a return. I think the committee is entitled to know what that return will be on the money invested.

Hon. Mr. CHEVRIER: If I may interject here, are we not face to face with the same difficulty we have from time to time in the committee, namely, that there is some information which the railway feels it can give and some which it feels it should not give because of its competitors. If the committee wishes to get that information and insists upon getting it then I think the committee is entitled to it.

Mr. JACKMAN: There are not any competitors.

Hon. Mr. CHEVRIER: But in the past the committee has not insisted.

Mr. HATFIELD: There is no competition in this line. The president has suggested he might give it to Mr. Hazen in confidence.

Mr. HAZEN: I am not interested in having that information in confidence. It does not concern me any more than it would any other member of this committee. I do not see where competition enters into the matter. You have decided to go ahead and erect a building. Construction is going to start on the 1st of May. You say that building is going to cost $4,000,000. That is a large amount of money. Before that money is spent I think this committee should know what return there is going to be because we are starting to go behind on the railway now.

Mr. VAUGHAN: We will give you the figures.

Hon. Mr. CHEVRIER: You say there is no competition. There is competition to this extent. Picao has come to Canada and established its headquarters here and has sought rental space everywhere, and in some cases has obtained it. The point I was making was is it fair to give that information under those circumstances? If the committee feels it should have it the matter is in the hands of the committee, but I am pointing out what we have done in the past.

Mr. LOCKHART: May I ask one quesion? Is there any tangible reason why the property was not sold to these people and let them develop it themselves? That is in connection with Mr. Hazen's question.

Mr. COOPER: The entire building is not going to be rented to any one organization.

Mr. LOCKHART: We are going into the real estate business. That is the point.

Mr. COOPER: One purpose that the railway had in commencing this development was to make a beginning of the development of our central station area.

Mr. VAUGHAN: We have some plans here which we will show you so you can see what the ultimate development may be.

Mr. MCCULLOCH: The land you have there is not bringing in any return now?

Mr. VAUGHAN: We are paying heavy taxes on that land.

Mr. MCCULLOCH: What you are aiming at is to put a building there which will bring in a return on the land and the building?

Mr. VAUGHAN: Will bring a return and will encourage building on the other parts of the property.

Mr. MCCULLOCH: I think it is good business.

Mr. VAUGHAN: I thought you might be interested in these plans.

Mr. HARKNESS: Have we the total of the amount of rent which is going to be secured?

Mr. HAZEN: He says he will give those figures.

Mr. VAUGHAN: That is the building we are referring to right now.

Mr. COOPER: The International Civil Aviation Organization will occupy these six floors (pointing to the plans). The International Air Transport Association will take this one. Trans-Canada Air Lines will take that one. The other air lines will take this one.

Mr. HAZEN: What street is that?

Mr. COOPER: This is now Ste. Genevieve, but the city of Montreal is going to merge it with University street and make University a wide north and south artery.

Mr. HAZEN: Is that the upper level? I am not familiar with the streets of Montreal.

Mr. COOPER: This is Dorchester street running east and west. This is the St. James's Club, if that will help identify it. This is now Ste. Genevieve street. The property here is now occupied by some rather poor buildings. That property will have to come down. One of the first things the city of Montreal is going to do, and which they have promised to do this year, is to widen University street southward from Dorchester street to St. Antoine.

Mr. HAZEN: What is the big structure rising behind there?

Mr. COOPER: That is the general office of the Canadian National Railways.

Mr. HAZEN: That is not there now?

Mr. COOPER: Oh, no, there is really nothing on this site except the station buildings which are down in between here and here. You cannot see them.

Mr. REID: Where are your offices at the present time?

Mr. VAUGHAN: Our offices are spread around. We have a building on the east side of McGill street, and another on the west side, and under the viaduct over which the trains come in, which is a very unhealthy place for a staff. We have nearly 2,000 people under that viaduct. They were put there before the trains came in over the viaduct. It is not a good place for them.

Mr. MCCULLOCH: Will those two buildings on McGill street be done away with when this new building is put up?

Mr. VAUGHAN: The buildings there will be disposed of.

Mr. MCCULLOCH: You are renting those now, are you not?

Mr. VAUGHAN: No, we own them.

Mr. NICHOLSON: The estimated cost of this is what?

Mr. COOPER: The estimated net cost of the large building is $6,750,000.

Mr. NICHOLSON: With the taller addition?

Mr. COOPER: The estimated cost of the office buildings as a whole was $7,750,000, but since that estimate was made the International Civil Aviation Organization asked for much more space.

Mr. HAZEN: You were going to give the figures. You said you would give some figures.

Mr. COOPER: Giving you them in total the estimated cost of the main building—that is this one here—is $3,936,000. The annual cost to the railway is $406,000. The annual revenue is $544,000.

Hon. Mr. CHEVRIER: Would you mind giving those figures again?

Mr. COOPER: The estimated cost of this International Aviation building—because that is the name of it—is $3,936,000. The estimated carrying charges are $406,000. That is per annum. The annual revenue is estimated to be $544,000.

Mr. NICHOLSON: How do you arrive at the $406,000?

Mr. COOPER: I can give you that. First of all we have the cost of the land. The cost of the land was $364,000 We have charged interest on that at 3·85 per cent. Then we have a sinking fund charge on the building of 5 per cent on the cost, covering interest and amortization. Then we have taxes. Then we have operating expenses of 70 cents per square foot. In the annual carrying charges we have included a return on capital sufficient to recoup the capital in thirty-one years.

Mr. HAZEN: You said you anticipated a revenue of $534,000?

Hon. Mr. CHEVRIER: $544,000.

Mr. HAZEN: $544,000. Is that the net revenue after the cost to the railway of $406,000 has been deducted?

Mr. COOPER: No, that is the gross revenue.

Mr. HAZEN: What is the net revenue you anticipate?

Mr. COOPER: $138,000.

Mr. HAZEN: What rate of interest is that on $3,936,000?

Mr. COOPER: It gives us a return on our investment of 3·53.

Mr. HAZEN: 3·52?

Mr. COOPER: 3·53 which, as I mentioned, is after providing for the amortization of the investment itself over a period of thirty-one years.

Mr. HAZEN: Are you prepared to break down that revenue?

Mr. VAUGHAN: I do not think it would be desirable to do that, Mr. Hazen, because after all, there may be others who would go to this International Aviation concern if they knew what we were charging and perhaps offer to put up a building and endeavour to entice this concern away from us. I do not think it would be desirable to give the amount per square foot.

Mr. HAZEN: They could not do that very well if you had your agreement signed. How long are the leases for?

Mr. COOPER: The lease on the International Aviation building is a 20 year lease with an option to renew.

Mr. JACKMAN: This International Aviation organization is permanently in Canada, is it? Have they voted to reside here forever?

Mr. COOPER: They did, yes.

Mr. HAZEN: Mr. Vaughan mentioned a moment ago the fact that you have to pay taxes on it.

Mr. VAUGHAN: We are the largest taxpayers in the city of Montreal by a good deal.

Mr. HAZEN: Do you have to pay taxes on your land in the city of Montreal?

Mr. VAUGHAN: Yes, we are the largest taxpayers in the city of Montreal.

Mr. HAZEN: I was under the impression you did not pay taxes. Are not the city of Halifax and the city of Saint John trying to find some way of taxing you?

Mr. VAUGHAN: That is up now, but that property is vested in the Crown. This property is not vested in the Crown, it is vested in the railway.

Hon. Mr. CHEVRIER: The point is this, Mr. Hazen, in the case to which you refer the lands are owned by the Canadian government, it is still a Canadian government railway as opposed to property owned by the Canadian National in Montreal and other parts of Canada. You are aware that that matter is now before the court.

Mr. HAZEN: Was that because the I.C.R. was a Crown company and these other companies were private companies which were taken over by the government?

Mr. VAUGHAN: That is correct.

Mr. HATFIELD: Does the Canadian Pacific pay taxes in Montreal?

Mr. VAUGHAN: They do, but not as much as we do. They do pay taxes.

Mr. HARKNESS: In the matter of taxes, I see on page 4 that taxes have increased this year by about $34,000,000; what is the reason for that? I thought the taxes were coming down.

Mr. VAUGHAN: There is some provision for back taxes there. Mr. Cooper has the figure.

Mr. COOPER: In the United States lines we paid $355,000 more than in 1945 due to the United States Retirement Act and Unemployment Insurance tax on wages. Our wage rates in the U.S. lines increased and therefore the taxes on the wages increased.

Then, in Canada, we increased our provision for taxes payable to the city of Montreal by $422,000. In 1946 our tax provision for the city of Montreal was $1,078,000. The charge increased by $422,000 because in 1946 there was a judgment of the court on the taxability of the Victoria Jubilee Bridge for which, from an accounting point of view, we felt we should make provision in case we have to pay something under that judgment. The case is under appeal.

Mr. HATFIELD: What is the amount of taxes paid at Portland, Maine?

Mr. COOPER: $39,280.

Mr. HATFIELD: $39,000?

Mr. COOPER: Yes.

Mr. HATFIELD: Do you pay any rentals at Portland, Maine?

Mr. COOPER: Not that I know of. There may be some very small rentals, but nothing of any consequence.

Mr. NICHOLSON: In connection with the item of $10,000,000 for this proposed 700 room hotel in Montreal, I wonder if we could have information regarding the total capital investment in hotels for the system and also information as to whether these hotels have been profitable if you take into account the interest on your original investment?

Mr. COOPER: Our investment in hotels at the end of 1946, that is the hotels we operate, was $26,946,000.

Mr. NICHOLSON: Does that include the Vancouver Hotel?

Mr. COOPER: No, that does not include the Hotel Vancouver.

Mr. NICHOLSON: What is your investment in the Hotel Vancouver?

Mr. COOPER: It is about $12,000,000. I will get that figure for you, Mr. Nicholson.

Mr. Nicholson: I know the hotels have been operating at a profit in recent years, but if you charged 3·53 per cent on your original investment, what would the picture be?

Mr. Vaughan: These hotels were all built, originally, as a service to the public in locations in which, for the most part, inadequate accommodation was available. Hotels were not always constructed with the idea of making money. We would not build hotels today as we built them then. Our hotel in Montreal will be a hotel which will be built to make money.

Mr. Nicholson: Would it make money on the basis of a $10.000,000 investment?

Mr. Vaughan: Oh yes, it will make a return on a $10,000,000 investment.

Mr. Nicholson: What have you invested in the Bessborough hotel in Saskatoon?

Mr. Vaughan: Approximately $4,000,000.

Mr. Nicholson: You have been charging 5 per cent on that investment?

Mr. Vaughan: Of course, that was a very heavy expenditure for a city such as Saskatoon. $3,500,000 is the exact figure.

Mr. Cooper: The investment in the Hotel Vancouver is $11,626,000.

Mr. Nicholson: I understand you consider there will be a return of the $10,000,000 investment in Montreal?

Mr. Vaughan: Yes.

Mr. Nicholson: With present costs in the hotel business?

Mr. Vaughan: Yes.

Mr. Jackman: The cost works out at about $14,300 per room. It is rather expensive accommodation.

Mr. Vaughan: The hotel is in the course of development, the plans are being prepared. Nothing will be done this year on it.

Mr. Nicholson: I suppose there are no photographs of this proposed building?

Mr. Vaughan: There is a photograph here which will give an idea of our property available for development in Montreal.

Mr. Cooper: (Indicating) This is Dorchester Street, running from east to west. This is the Sun Life Building, this is the International Aviation building of which we were speaking. This is the office building and this is the hotel, here. The hotel also runs down Mansfield street. This (indicating) group of buildings is just imaginary and represents the architect's conception of how the whole area should be developed. We really have to get this picture to decide on the location, size and design of that particular building.

Mr. Pouliot: Is it in accordance with Sir Henry Thornton's project?

Mr. Vaughan: No, sir; it is not. Of course, when this property was originally bought, long before Sir Henry Thornton came to the Canadian National Railways, some of it was bought with the intention of putting up a hotel. However, nothing was done about it and we have this vast amount of property there which is eating its head off in taxes. Office buildings are now being constructed rather close to us. The Shawinigan Water and Power Company are putting up a building about a block away, the Bell Telephone Company are putting up a new building which will cost several million dollars and it is just a block away, so that this property is on the eve of development.

Mr. Pouliot: What is the difference between Sir Henry's plan and this one?

Mr. Vaughan: Sir Henry had a project of this kind in view, Mr. Pouliot, it is true; but this project was also in view at the time the property was bought

originally. Some of the property was bought in Sir Henry's time, but there was a large amount of property purchased at the time the tunnel was put through.

Mr. COOPER: I think I should mention, sir, that it is not the intention that the railway would build these buildings. It is our expectation in commencing this development that we might dispose of these building sites which are very valuable.

Mr. LOCKHART: Would that not be a good idea at the present time? May I ask, Mr. Chairman, if the officials of the railway consider a return of 3·53 per cent on the net investment is a good gamble considering the present cost of construction? Do you consider that is a good investment? Might I ask, Mr. Chairman, considering the present high cost of construction and the fact you are only providing for 3·53 per cent return, what will happen if things slide back? Will that mean your investment is in jeopardy?

Mr. VAUGHAN: We have provided in the expenses for the total amortization of the cost in a thirty-year period, so that the cost of the building would be wiped out in that period as well as securing a 3½ per cent return.

Mr. LOCKHART: Do you still think it would be better to start a project at this time at this place rather than to dispose of the lands which have a high value as suggested by Mr. Cooper in connection with the proposed office building. If the proposal is good in that connection, why is it not good in this connection?

Mr. VAUGHAN: In the first place, these aviation interests require a building. We want to keep them in Canada. If they do not have a place to dwell in they will not stay in Canada. It is very important that a building be provided for them. They like this set-up. They like the location. They are willing to enter into a contract with us which will provide a fair return on the investment. In addition to that, we consider if we erect this building it will assist us in disposing of the rest of the property to advantage.

Mr. LOCKHART: You would not suggest the aviation people purchase the site and go ahead with the construction of their own office?

Mr. VAUGHAN: They will not do it.

Mr. LOCKHART: That is definitely decided?

Mr. VAUGHAN: Yes, they will not occupy all of it. They would only occupy a portion of the building. If they could occupy the whole thing, it would be different, but they will not occupy the whole building.

Mr. LOCKHART: It is a precarious venture considering present costs because you are going to be faced with terrific costs. Costs are increasing all the time and with that margin, I can see there would be difficulties.

Mr. VAUGHAN: We have given the matter careful consideration. We have provided for what we think are the contingencies which may arise which might increase the costs on this building. We believe after all of those are taken care of we will have a fair return on the building.

Mr. LOCKHART: Mr. Chairman, as I stated at the outset, we are going into the real estate business in a very large way on a rather narrow margin, I am afraid, according to these figures.

Mr. REID: Will the new office building be part of this business block?

Mr. VAUGHAN: Yes.

Mr. REID: Will there be any saving at all? It will cost over $3,000,000 for the office accommodation; I think the figures given by Mr. Cooper were $7,000,000, and the building for the present office accommodation cost about $950,000. When you have the new office accommodation completed, apart from the fact it will benefit the employees and quite properly so, what will the business effect be?

Mr. VAUGHAN: There will be no saving to us in the construction of the office building. However, it is something which must be done sooner or later because it is not fair to keep 2,000 employees in a place which was built for warehouse purposes.

Mr. NICHOLSON: I do not think there can be much quarrel with what the president has said concerning the office space. The present offices are not in keeping with an organization such as the Canadian National. However, I am not satisfied with the hotel situation. If there is a shortage of materials throughout the country, an expenditure of $10,000,000 in the city of Montreal appears to be a fairly large item.

Hon. Mr. CHEVRIER: There is no question of building the hotel immediately.

Mr. NICHOLSON: No, but plans are afoot and I should like to have the information as to what the present position would be if the total investment in the hotels had been amortized over a 30-year period, what would be the present position?

Mr. COOPER: I gave you a figure of $1,200,000 as being the net operating income of our hotels in 1946 on an investment of nearly $27,000,000. Figuring interest on the investment at 3 per cent, which I think is fair, that would be $810,000 and would still leave a margin of income of $290,000 after providing for interest.

Mr. NICHOLSON: That has been true during the war years, but some of them have been built for thirty years.

Mr. COOPER: People did not make money prior to the war.

Hon. Mr. CHEVRIER: What is the situation in regard to hotel accommodation in a city the size of Montreal?

Mr. COOPER: You cannot secure accommodation. Mr. Vaughn was telling me that when our directors come to Montreal, we really have to get out and dig up accommodation for them. It is almost impossible to secure space in a hotel in Montreal.

Mr. LACROIX: Dou you not think it would be a good idea to dispose of the land in front, there, considering the high cost of property hight now, providing there would be a term in the contract that the building would not spoil the original layout of your plan.

Mr. COOPER: That is exactly what we are hoping for. There are indications we may succeed.

Mr. MCCULLOCH: If everyone were to stop building at this time, what would happen? Business would be at a standstill. Buildings have to be put up now in order to keep employment at a high level.

Mr. HAZEN: There is a demand for housing all over the country now. Builders cannot get materials.

Mr. LACROIX: I really believe you would get a better revenue from your property now than you would five years from now.

Mr. NICHOLSON: It is proposed to spend these millions of dollars in the city of Montreal and those of us from other parts of Canada are having a very difficult job trying to get even a few dollars spent for better stations and so on. For instance, we need a station agent at Lintlaw. The only accommodation for heated storage there is in the waiting room. Sometimes we have to store nearly a carload of apples and potatoes in there. The train gets in about six-thirty, too late for delivery to the stores. There is a great difficulty in getting authority for the very minor but necessary extensions such as this which are necessary all over the country; $17,000,000 to be spent in the city of Montreal seems a very large percentage of the total which is going to be spent.

Mr. VAUGHAN: I think nearly every city from the Atlantic to the Pacific desires a new station. We have applications from a great many of them. A few of them are, no doubt, needed; there is no doubt about that. A new Board of Trade comes along and says their station does not look well, so we receive an application for a new station. This happens all over Canada.

Mr. NICHOLSON: Could I enquire as to what your program is for all over Canada, that is the amount to be spent on new stations and other buildings?

Mr. VAUGHAN: I think that will come up in a discussion of our budget.

Mr. REID: I should like, at this point, to put in a plug for New Westminster.

Mr. HATFIELD: How much of your tonnage revenue in 1945 consisted of munitions, war supplies?

Mr. VAUGHAN: That is a question we could not answer. We have not kept those records separately from our general business. It would be very difficult and almost an impossible thing to do.

Mr. HATFIELD: You handled very little munitions and war supplies in 1946?

Mr. VAUGHAN: There were a few war supplies moved in 1946. They were supplies left over from the war, but generally speaking, there was not any large movement of war supplies moved in 1946.

Mr. HATFIELD: Were munitions carried on a commodity rate or a class rate during the war years?

Mr. VAUGHAN: They were carried on both.

Mr. HATFIELD: What was the idea in charging a class rate on munitions? Such a rate is nearly as high as the express rate. Why should carloads of munitions be charged class rates?

Mr. VAUGHAN: We merely charged in accordance with the tariff approved by the Board of Transport Commissioners.

Mr. HATFIELD: Was there not an application made by the Department of Munitions and Supply to put commodity rates into effect on these munitions?

Mr. VAUGHAN: There were negotiations constantly carried on in regard to the revision of freight rates.

Mr. HATFIELD: Were not most of the munitions throughout the country handled on class rates instead of commodity rates?

Mr. VAUGHAN: Whatever the tariff said. There were no alterations made in the tariff and the goods were handled in accordance with the tariff.

Mr. HATFIELD: That would have a lot to do with the revenue.

Mr. VAUGHAN: That would have more to do with the revenue in 1945, but not much to do with the revenue in 1946.

Mr. LACROIX: May I move the adoption of that report?

Mr. REID: Before that happens, I have two questions to put. On page 9 of the report there is the following statement:—

> Following a decision that the company would undertake its own testing of materials, a well-equipped chemical and physical laboratory has been established in Montreal.

Is that not something new?

Mr. VAUGHAN: Yes, we have established a new laboratory in Montreal. Previous to that we had our work done outside by commercial laboratories. This was not completely satisfactory, so we decided, as some of the large railroads in the United States have done, to put in our own lab. We believed we would get better results, and, in the final analysis, it would be more economical.

Mr. Reid: What did it cost?

Mr. Vaughan: I have not the cost of establishing the laboratory, but it was not heavy. The payroll cost is about $24,000 a year.

Mr. Reid: I am not questioning the advisability of it, but how would it compare with the cost of having it done outside?

Mr. Vaughan: I have not the exact figures here, but it was not satisfactory having it done outside. You will appreciate that a system the size of ours calls for research to be carried on all the time in connection with the various materials which we use. Here is a report which will give you some idea:—

> There were 7,336 analytical determinations on samples arising out of the inspection and acceptance of materials purchased and 2,747 determinations on samples of materials sent in by various railway departments.
>
> There were 115 special investigations of a research nature which required 24 per cent of the total time of the staff. The reports included investigation of damage claims and failure of materials in service; research on lubricating and diesel fuel oils; oil and waste reclamation; paints for cars and locomotives; anti-corrision paints; tie treating materials; heat insulating materials; hardwood charcoal substitutes; fire extinguisher liquids; fiameproofing compounds; truck fusees and torpedoes; soap and cleaning compounds; carbon monoxide conditions caused by internal combustion engines, etc.

Those are just a few examples of the work we carry one.

Mr. Reid: Regarding the Department of Colonization and Agriculture, does it work in conjunction with the immigration authorities here?

Mr. Vaughan: Yes, they co-operate very closely with them.

Mr. Hatfield: I should like to ask why the National Research Council is not used. Is it not doing the same work?

Mr. Vaughan: The National Research Council would not care to undertake the work for the railway.

Mr. Hatfield: They are doing it for private corporations, why not do it for the government owned railway.

Mr. Vaughan: There is no corporation which would have anything like the work which the railway has to do. Our people co-operate very closely with the National Research Council. They work together on various developments.

Mr. Nicholson: In connection with this paragraph on colonization and agriculture, I wonder if Mr. Vaughan could give us a supplementary statement indicating the amount of land still available and where it is located? What are the prospects for having it made available?

Mr. Vaughan: I do not think I have that information here, but I will get it for you, Mr. Nicholson.

Mr. Hazen: Where is this new chemical and physical laboratory located?

Mr. Vaughan: It is located on property in Pointe St. Charles.

Mr. Hazen: You have not the cost of establishing it with you?

Mr. Vaughan: I have not the cost of establishing it. It was an old building which we remodelled.

Mr. Hazen: Could you get that information?

Mr. Vaughan: Yes.

Mr. Hazen: Did I understand you to say it was going to cost $24,000 a year to operate?

Mr. Vaughan: That is correct, for wages.

Mr. Hazen: Who did this work for you prior to the establishment of the laboratory?

Mr. VAUGHAN: We had several outside firms, we had the Milton Hersey Company, the Canadian Inspection Company, Donald and Company, I think there were perhaps half a dozen outside firms who did work.

Mr. HAZEN: I understood you to say it was not satisfactory?

Mr. VAUGHAN: I would not say they did not do it in a satisfactory manner, so far as the work is concerned, but they did not always go as far as we wanted to go.

Mr. HAZEN: Could you tell us what this work cost for the last three years, by the year?

Mr. VAUGHAN: I think we could get that information for you.

The CHAIRMAN: If you have discussed the preseident's report sufficiently—

Mr. HARKNESS: No, I should like to ask a question in connection with page 9 of the report, the fourth last paragraph. It states,

> An agreement was completed with the Canadian Pacific Railway for the abandonment of 12·2 miles of Canadian National line between Trelle Junction and Morinville, Alberta, and the joint use of 20·2 miles of the Northern Alberta Railways between N.A.R. Junction and Morinville. The appeal to the Governor in Council from the order of the Board of Transport Commissioners authorizing the abandonment of 64·7 miles of Canadian Pacific line between Forth (near Red Deer) and Ullin, Alberta, was dismissed and an agreement between the two railways is being negotiated.

What does that mean? Who launched the appeal and what is happening now in connection with it?

Mr. VAUGHAN: The Board of Transport Commissioners granted the railways permission to abandon that line and lift the tracks. This appeal was made by the local people to the Governor in Council. The appeal was dismissed and the order of the Board of Transport Commissioners confirmed. Therefore, the line was taken up.

Mr. HARKNESS: What is the situation going to be out there now?

Mr. VAUGHAN: The situation is taken care of by each company using a portion of the other company's line. We consider the transportation facilities provided will be entirely adequate.

Mr. NICHOLSON: Was this the line discussed by Mr. Shaw a few years ago?

Mr. VAUGHAN: Yes.

Mr. HARKNESS: There will now be just one line of railway running from Red Deer out to Rocky Mountain House?

Mr. VAUGHAN: That is correct.

Mr. MCLURE: I should like to ask a question in connection with the operating revenue and expenses. Do you keep any records of the operating revenue and expenses on a divisional basis?

Mr. VAUGHAN: No, sir, we do not.

Mr. MCLURE: You do not know whether one divisional operation is operating at a profit or at a loss?

Mr. VAUGHAN: We do not keep details of that type, Colonel McLure. It would be a tremendous accounting proposition to do it, and I do not think there would be any advantage in it. Such figures might show that losses would indicate certain lines should be abandoned, which would not be practical.

Mr. MCLURE: That was my reason for asking this question. Our division is entirely separated from the main division by a water course, and, having an idea our division of the railways is operating at an excellent profit, I thought

we might be in a position to come to the honourable minister of transport and get some more benefits for our people.

Mr. REID: It is nice to hear that one division is operating at a profit.

Mr. HATFIELD: How much was paid by way of damage claims in 1946 and 1945? Have you those figures?

Mr. VAUGHAN: I think we have those figures.

Mr. HATFIELD: Was there not a large amount of perishable goods lost on your line during the war?

Mr. VAUGHAN: Nothing out of the ordinary. There are always a tremendous number of damage claims before us. Our loss through damage to freight in 1946 was $2,318,000 and in 1945, $2,150,000.

Mr. HATFIELD: I have in mind three carloads of eggs and three carloads of beef which were held on the siding at Napadogan for a month. You had to pay a damage claim on that. It was a complete loss. How many cases of that nature would there be during the war years?

Mr. VAUGHAN: I do not think there were many if any such cases. Do you know anything about that case Mr. Walton?

Mr. WALTON: I do not recall that particular case. Our average on claims compares favourably with the large American roads. All of these claims which arise, are, needless to say, carefully investigated and steps taken to avoid any mistake which may have been made. In many of these cases where claims are made, especially on freight coming from American lines, evidence is available to show that the damage occurred prior to our receiving the car. The whole situation is handled on an organized basis and no claims are paid which are not warranted.

Mr. EMMERSON: I wanted to go back to the research and testing laboratory. This is the first time it has been mentioned in any report in the last number of years. Is that more of a testing than a research laboratory?

Mr. VAUGHAN: It is both. It is both for research and testing purposes.

Mr. EMMERSON: Is there any precedent for this? Are there any other large railway corporations which maintain their own testing and research laboratories?

Mr. VAUGHAN: Yes, there are.

Mr. EMMERSON: And which have been established for some time?

Mr. VAUGHAN: Some of them have been doing that for a long time, such as the Pennsylvania railroad. They have had their own testing laboratories for years.

Mr. EMMERSON: So this is not a new departure?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: May I ask Mr. Vaughan in regard to the land settlement question, which you are going to amplify later, if the C.N.R. still owns substantial lands or were they all turned over to the old Canadian Northern Prairie Lands Company?

Mr. VAUGHAN: No, we still have some few hundred thousand acres of land left, but I will get that figure for you.

Mr. JACKMAN: It is not very substantial as far as future settlement is concerned?

Mr. VAUGHAN: Some of it is. Most of the good land was sold, but there is some left. We are selling it from year to year. We have been getting a fairly good price for it during the war.

Mr. JACKMAN: In regard to this predicated, or imaginary hotel in Montreal if it is going to cost $14,300 a room what are you expecting to charge per day for a room? What is your scale?

Mr. VAUGHAN: I do not think I have that figure here. We have not got quite that far. Of course, we can charge more now than we could a little while ago.

Mr. JACKMAN: Granting that there may be a shortage of hotel space in Montreal, and that when your directors meet you have to scurry around to get accommodation for them, if there is a shortage and a possibility of erecting a first class structure there there certainly is no shortage of private capital that might be put into it. Why does the railway want to venture into this type of expenditure?

Mr. VAUGHAN: We come back again to the point, Mr. Jackman, that we have this property there which is very valuable, and which is capable of development, and is an exceedingly good site for a hotel. We have had several hotel companies approach us which wanted to erect hotels on both the north and south sides of Dorchester street, but they always wanted to exact too much from the railway, and we were never able to make a deal with them. In other words, we could not come to terms with them. We nearly had a deal completed with the Statler people, but it fell through. We have had other large hotel chains which have approached us, too, but none of them have submitted what we considered was a satisfactory proposition.

Mr. JACKMAN: The same reasoning would apply to all of that vacant space which Mr. LaCroix mentioned would be suitable for disposing to other interests. You said that was one of the reasons why you were anxioux to put up the present office building.

Mr. VAUGHAN: That is quite true.

Mr. JACKMAN: But when it comes to a bird in the hand, when you can sell some property to a private hotel interest which will do a first class job, as the Statler people would, or any of these others, you find reasons for wanting to do it yourselves and for asking us to vote money for you in parliament.

Mr. VAUGHAN: These hotel companies which approached us always made conditions we could not meet. They either wanted the land thrown in, or they wanted an office building put up in conjunction with the hotel, and wanted us to guarantee to take so much space in the office building. There was always something attached to it which we could not agree to do.

Mr. NICHOLSON: If you had such a building as the Royal York near your terminal in Montreal would you consider you could pay interest on your investment and meet your actual expenses?

Mr. VAUGHAN: I imagine the Royal York is doing very well.

Mr. JACKMAN: Would you also imagine the Royal York did pretty well prior to 1940?

Mr. VAUGHAN: When the Royal York was put up undoubtedly there were some years when they did not make money, but that applied to all hotels and to a great many businesses in Canada.

Mr. HATFIELD: It will apply again, too.

Mr. NICHOLSON: The Canadian Pacific considers it brings revenue to the company to have in Toronto a hotel such as the Royal York. Would you possibly feel that a similar hotel in Montreal might attract international tourists?

Mr. VAUGHAN: Yes, except we would not spend as much money on a hotel in Montreal as they did in Toronto. We are not going to put up as large a hotel, and the investment would not be as great.

Mr. HAZEN: Do the hotels you own and operate now pay interest on the capital invested?

Mr. VAUGHAN: The hotels we own have never paid a great return on the capital but as I said before most of those hotels were put up not with the idea of making money but with the idea of providing service for the public.

Mr. HAZEN: Is that your idea about this new hotel we have been talking about in Montreal? Is it to provide service for the public?

Mr. VAUGHAN: That hotel will be of a different class entirely. Its service arrangements will be such that it can be operated economically.

Mr. HAZEN: If you do go on with the construction of a hotel in Montreal your intention is to build a hotel which will pay interest on the investment?

Mr. VAUGHAN: That is correct. We expect it will pay more than the interest on the investment.

Mr. LACROIX: Do you not think costs of construction will go down in three years from now?

Mr. VAUGHAN: I did not catch what you said?

Mr. LACROIX: The cost of construction will go down?

Mr. VAUGHAN: I think it will go down, but I should like to point out again that the construction of this hotel is not before us to-day. We do not intend to build it this year.

Mr. LACROIX: I quite understand that.

Mr. JACKMAN: By the time it does come it may be like your aviation office building. It is only a week away from signing on the dotted line. I do not think that we have heard before in this committee about an aviation building being proceeded with in Montreal, and it is almost too late now for the railways to even go so far as to accept wise counsel, shall I say.

Mr. LACROIX: I think it is different in that case, because they have been guaranteed a certain amount of revenue. They are closing the deals right now.

Mr. JACKMAN: Once they get the leases they have some assurance.

Hon. Mr. CHEVRIER: Mr. Jackman, is it not a matter for the board of directors of the Canadian National Railways to decide whether or not in their judgment, this project, which appears to be an integrated project, is a wise thing? Having decided that they ask for the approval of the government. That is the method in which the Canadian National Railways operate. Then, having done that they come before the committee to receive approval of their action.

Mr. VAUGHAN: I should like to amplify that and say that there is no project that we proceed with which is not very carefully analysed in the greatest detail by our board of directors before anything is done about it.

Mr. JACKMAN: I do not doubt that. I have more confidence in the operating management than I would have in the board. If you pass it they will probably pass it because you have so much more knowledge, not that they are not an able board.

Mr. VAUGHAN: Our board is not a "yes" board. They are a very active board. We have got to prove to them the reason for everything we do.

Mr. JACKMAN: Well, you know how it operates, Mr. Vaughan, but, as the minister said, these things sometimes get so far along you cannot stop them. I think we should decide whether or not a hotel in Montreal put up by the railway itself is necessarily an integral part of the railway's operations. Mr. Vaughan said the only reason certain other offers were not accepted was because they were not satisfactory in terms, not because they would interfere with the integration of the railway itself. In other words, it is just a question of bargaining which was not quite satisfactory, so the railway would like to operate it itself. There is no doubt that the larger your whole structure is and the more monumental the hotels you have the greater is

your enterprise. It is a natural human desire, but at the same time this committee is here to make sure that we do not get too far embarked on a policy of expansion for the railways, and some of us prefer private ownership to public ownership.

Mr. VAUGHAN: This matter was very carefully analysed by the Statler Hotel Company and by ourselves in co-operation with them. It was found there were fewer hotel rooms per capita in Montreal than in any city on the North American continent. It was found, notwithstanding the fact that Montreal has a very much larger population than Toronto, that Toronto has very many more hotel rooms than Montreal. Vancouver has more hotel rooms. Montreal is greatly deficient in hotel accommodation.

Mr. JACKMAN: Those reasons would all be evident to the people who are seeking to build on the railway property, Mr. Vaughan, and I should think their terms would be modified accordingly. In other words, it would be such a splendid place to build a hotel that it would be apparent to those people who are in the business and who understand the operation of hotels.

Mr. HATFIELD: Did you make allowance for the new hotel going up in Montreal at the present time?

Mr. VAUGHAN: Yes, we did. Of course, that hotel is a popular priced hotel, so-called, which would cater to a different class of people. There are very few facilities in Montreal for conventions or anything of that kind, and Montreal has a lot of advantages as a convention city. Many people do not come to Montreal at all because they cannot get hotel accommodation.

Mr. HATFIELD: Is there not a proposed extension to the Windsor hotel?

Mr. VAUGHAN: I do not know what the Windsor intend to do. They have been talking about putting up an extension for a great many years, but they have not done anything about it yet.

Mr. McLURE: Has there not been a demand made to you by the travelling public to build this hotel?

Mr. VAUGHAN: Yes.

Mr. McLURE: And different associations?

Mr. VAUGHAN: We have had many requests to put up a hotel in Montreal.

Mr. HARKNESS: At the bottom of page 5 you make this statement:—

> In the last quarter of the year the downward trend was reversed and there was an increase of 3·7 per cent as compared with the same period of 1945.

I have three questions I should like to ask on that statement. The first is, what is the reason for that increase? The second is, has it been continued into the first quarter of 1947, and the third is, what do you estimate is going to be the situation as far as traffic is concerned for the year 1947?

Mr. VAUGHAN: I would say in reply to the first question that factories have got back again from war production to producing consumer goods, and they can sell all their products to-day without difficulty. I think that was the reason for the increase in the latter part of the year. You might say the change-over from war production to domestic production had started, which caused an increase in traffic after the lull.

Mr. HARKNESS: This increase in traffic was mostly in manufactured goods and supplies for these factories?

Mr. VAUGHAN: I think so. In regard to the second question we are showing an increase in traffic so far this year. In fact, our increase this year is 9·9 per cent.

Mr. HARKNESS: For the first quarter of this year?

Mr. VAUGHAN: For the first quarter of this year. That is up to the 21st of April this year.

Mr. REID: Do you get your fair share of traffic arriving on the Queen Elizabeth at New York and coming to Canada?

Mr. HARKNESS: I wonder if Mr. Vaughan could answer the third question as to the estimate for the current year of what the traffic is likely to be?

Mr. VAUGHAN: We have a budget prepared here which will be submitted to the committee in due course. It shows that we expect to earn this year $402,000,000 gross as against $400,000,000 in 1946. We expect our traffic to level out and be maintained on an even keel during the last six months of the year.

Mr. HARKNESS: You do not anticipate this 9 per cent increase, which you have had so far, will continue?

Mr. VAUGHAN: We do not think it will continue in that ratio, no. We think there may be a small increase, or perhaps no increase at all, but after calculating the thing for all our regions and getting all the information we can we figure at the end of this year we will have $2,000,000 more gross than we had in 1946.

Mr. HARKNESS: That sounds very satisfactory.

Mr. JACKMAN: What is the estimate of net?

Mr. VAUGHAN: The estimate of net is not very good.

Mr. JACKMAN: On the basis of present rates and on the basis of the 30 per cent application?

Mr. VAUGHAN: On the basis of present rates we estimate a deficit of $31,000,000 in 1947.

Mr. JACKMAN: And on the basis of the 30 per cent increase for which you are asking?

The CHAIRMAN: We are getting on to the budget gentlemen.

Mr. VAUGHAN: I have not got these statements. They have all been filed with the Board of Transport Commissioners.

Mr. JACKMAN: If your application is granted you would break about even in 1947?

Mr. COOPER: It would depend on when you get the increase.

Mr. VAUGHAN: Perhaps you can hurry it along a little bit.

Mr. JACKMAN: May I ask this question? In your consolidation income account under operating expenses you have maintenance of way and structures $73,000,000 against $76,000,000 in the previous year.

Hon. Mr. CHEVRIER: $67,000,000.

Mr. JACKMAN: Yes, I am sorry, that is on maintenance of way. Maintenance of way structures and maintenance and depreciation of equipment are the first figures, both of which are about $3,000,000 short of what they were in 1945. It would seem to me that this would indicate that you have saved on your controllable expenses wherever possible by not spending money on maintenance of way. I will have that applied to the first item, chiefly, and not to depreciation. It will apply almost equally to both, perhaps, but I have noted that you transferred from deferred maintenance, $13,524,000 and credited this to expense account which, of course, improved the position. You were $13,500,000 better off in 1946 because of certain monies you accumulated during war years, than you would otherwise be. I wonder if Mr. Vaughn or Mr. Cooper would explain what did happen, what procedure was followed which caused the railway to spend less money on actual maintenance of way, structures and equipment than you did the previous year. You charged less to the year's operation, as it were, and at the same time you drew back or transferred from the deferred maintenance account accumulated on your books, $13,500,000; that would seem

to me to indicate that you rather charged last year's operation about $16,000,000 or $17,000,000 less than you did the previous year. Had you charged an equal amount, your deficit would be $16,000,000 or $17,000,000 greater than you show?

Mr. VAUGHAN: We actually spent more money, Mr. Jackman. The difference was taken out of reserve.

Mr. JACKMAN: You did not spend more money.

Mr. COOPER: You are looking at figures which have been reduced by $13,000,000. If you would add the $13,000,000 before you make a comparison, you would see there was an increase in 1946 expenses over 1945.

Mr. JACKMAN: As I see it, you spent on maintenance of way and structures last year $67,000,000 as compared with $70,000,000 in 1945.

Mr. COOPER: Yes, but $67,000,000 is after applying these credits from the reserves.

Mr. JACKMAN: I realize that.

Mr. COOPER: Prior to the application of the credit, the figure was larger in 1946.

Mr. JACKMAN: You mean you really spent $80,000,000, that is the effect, is it?

THE CHAIRMAN: Mr. Reid has a question he wanted to ask.

Mr. JACKMAN: You really spent $80,000,000 on maintenance of way and structures last year and charged $67,000,000 of it to the year.

Mr. COOPER: Not if you confine your question to the one point. Taking the maintenance account, we actually spent more money in 1946 than we did in 1945, but by reducing our expenditures by credit from the reserve account, it appears as if we had spent less.

Mr. JACKMAN: As a result of being able to draw on this accumulated deferred maintenance account you were able to save $3,000,000 expenditure on one account and $3,000,000 on maintenance and depreciation on the equipment account, so really you would have had to spend $6,000,000 currently, not just for deferred maintenance but for current maintenance, had you not had the deferred maintenance account upon which to draw. Therefore, I say your true picture for the year might have been $6,000,000 worse than it was.

Mr. VAUGHAN: Except this, we would not have spent the money had we not had the reserves.

Mr. JACKMAN: I presume the money was well spent.

Mr. VAUGHAN: It was very well spent. Those reserves were built up to take care of maintenance which had to be deferred during the war when men and materials were not available.

Mr. JACKMAN: How much have you got left in the deferred maintenance account now?

Mr. COOPER: We have $33,000,000.

Mr. JACKMAN: This year, I suppose, you will do something the same as last year, you will be drawing to some extent on that account?

Mr. COOPER: To some extent; our budget allows about $10,000,000 to be paid out of reserves in 1947.

Mr. JACKMAN: It did seem to me, had you been building up a case for a rate increase, you could have charged more to the year's operations.

Mr. COOPER: We could have shown a very much worse picture.

Mr. JACKMAN: And still be true to sound accounting principals.

Mr. Cooper: The reserves were created to take care, after the war, of expenditures which should have been made during the war. We are using them for the purpose for which they were created.

The Chairman: Mr. Reid, I think you have a question.

Mr. Reid: I was interested in knowing what facilities you have for taking care of passengers arriving say, on the Queen Elizabeth or other ships coming to Canada and landing in New York?

Mr. Vaughan: We have an organization in London. We have a European manager there who supervises all our traffic offices in Europe. We have offices in Southampton, Glasgow and Liverpool. I think if you refer to page 33, you will find we have offices in Great Britain, in Belfast, Cardiff, Glasgow, Liverpool and Southampton. Then we have, for unrouted passengers, our own offices in New York. We are constantly after every passenger we can get.

Mr. Hazen: The second paragraph on page 6 says,

> The freight rate increases authorized by the Interstate Commerce Commission of the United States effective July 1, 1946, added $4,290,000 to the gross revenues of the system.

Mr. Vaughan: Yes.

Mr. Hazen: Could you give, not now, but perhaps this afternoon, a breakdown of the earnings of the system in the United States, passenger and freight earnings? You are operating a number of railways in the United States?

Mr. Vaughan: Yes, we have three important railways there, the Grand Trunk Western, the Central Vermont and the Duluth, Winnipeg and Pacific.

Mr. Hazen: Could you give us a breakdown of those?

Mr. Vaughan: All right, sir.

Mr. Hazen: What I am more particularly interested in is your road which runs to Portland. It runs from Montreal to Portland, does it?

Mr. Cooper: We have a breakdown of that.

Mr. Vaughan: You probably saw where we are in trouble with the city of Portland because they consider we are letting our facilities deteriorate and not putting sufficient traffic through there.

Mr. Hazen: I was going to ask a question about that line and I should like to get this information.

Mr. Vaughan: We will give you what grain was handled through there in 1945 and 1946, that will give you a good idea.

Mr. LaCroix: I would move the adoption of this report.

The Chairman: Have you discussed this report sufficiently? I have a motion that it be adopted.

Mr. Pouliot: Is it true that there have been Interstate Commerce Commission rulings which favoured the longer haul on the American railways rather than the shorter haul via the Canadian National lines in the United States? They are setting rates cheaper for the American railways than for the Canadian National railways?

Mr. Vaughan: I do not think so. The United States rates are substantially higher than our rates in Canada, taking them all the way through. They were higher before they received this recent interim increase which they received on the first of July, and they received another increase on the first of January. Before they received any increase at all, our average per ton mile rate was lower than the average in the United States.

Mr. Pouliot: Do not the rulings of the Interstate Commerce Commission favour the American railways to the detriment of the Canadian National in some instances?

Mr. VAUGHAN: I do not recall any instances. I think the Interstate Commerce Commission has been very fair in that respect.

Mr. POULIOT: Are their rates standard?

Mr. VAUGHAN: Oh, yes.

Mr. HAZEN: May I ask a question concerning the last part of Mr. Vaughan's report? It says,

> The department brought a limited number of British immigrants into Canada and is in a position to deal with large scale movements when it is called upon to do so.

How did you bring them in? You had no ships of your own?

Mr. VAUGHAN: No, sir, their transportation is, in some cases, arranged by our London office. We get them from vessels at Halifax, Saint John or somewhere else.

Mr. HAZEN: What part did you play in bringing them in? Did you start in the old country or where?

Mr. VAUGHAN: Our activities in connection with them would start in the old country.

Mr. HAZEN: You arranged for their coming out here?

Mr. VAUGHAN: Yes.

Mr. HAZEN: Could you give us any idea as to how many came?

Mr. VAUGHAN: The figures are given on that page, but I may say this, we have had to add one or two additional stenographers to our London immigration office because the enquiries are coming in so fast we had not sufficient staff to answer them.

Mr. HAZEN: I was referring to the number you have brought in.

Mr. VAUGHAN: I think a large number of those were the wives of soldiers and some may have been Poles who were brought in under the auspices of the government.

Mr. HAZEN: You have referred to them as British immigrants. Are you in a position to give us the number?

Hon. Mr. CHEVRIER: It is set out on the page from which you have read, 4,922 persons.

Mr. HAZEN: It refers to the number of people who were established in agriculture, mining and forestry. It also says,

"The department brought in a limited number of British immigrants—" It does not say how many were brought in and I am asking about the British immigrants only.

Mr. VAUGHAN: We will give you that information.

Mr. HAZEN: You say you are in a position to deal with large scale movements when called upon to do so.

Mr. VAUGHAN: Yes.

Mr. HAZEN: But you have no ships of your own. How would you be prepared to handle a large scale movement?

Mr. VAUGHAN: That means we have a staff to look after those people when ships are available. We have staffs there who are answering all kinds of enquiries about Canada as well as enquiries from industries which are considering establishing in Canada.

I might say this, too, that we have an agreement with the Canadian Pacific with regard to certain immigration traffic which permits us to handle people ex their boats.

Mr. POULIOT: When people come on Canadian Pacific ships, do they take the Canadian National railways at the port?

Mr. VAUGHAN: It is fifty-fifty, I think.

Mr. POULIOT: Is that because the Canadian Pacific cannot handle the situation alone?

Mr. VAUGHAN: No, we have an arrangement with them in respect to handling immigration which is working out satisfactorily to all parties.

Mr. POULIOT: Before the report is adopted, Mr. Vaughan, will you say why there is no electricity in the station at St. Arsene? There have been many complaints about that condition, and they have to use fuel, which is a great inconvenience. I assume that there should be a standard service with electricity in all stations.

Mr. VAUGHAN: We will go into that right away and we will find out what the reason is for it and what can be done about it.

Mr. POULIOT: I have brought that to your attention now and you may answer me later.

Mr. VAUGHAN: We will do that.

The CHAIRMAN: Gentlemen, would you care to adopt the president's report?

Mr. HAZEN: No; I move we adjourn.

The committee adjourned to meet again this afternoon at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: At 1 o'clock we were discussing Mr. Vaughan's report. Are there any other questions relating to his report before we take the financial statements?

Mr. JACKMAN: Mr. Vaughan, I have been thinking about that hotel which is admittedly somewhat in the future, and perhaps not of very practical import at the moment, but nevertheless I did not draw on my own imagination. It was brought out here by somebody who knew about it. I was just wondering how any private railroad company, let us say which had the same financial position as the C.N.R. has, could possibly contemplate going into an enterprise of that nature which was not absolutely necessary for the carrying on of its operations. I thought it might possibly be a situation for having a subsidiary company, but then the bonds of that company would have to be guaranteed by a guarantor who was credit-worthy, and I do not understand how if this were a private enterprise, and on the financial record, you could possibly contemplate going into a new hotel venture such as that mentioned. Therefore it puts me on guard and makes me think possibly an enterprise of the nature of the C.N.R., which has public backing, may get into things which it would not otherwise get into if it had to apply the sound common sense that is applied in the market place to ordinary enterprises.

Mr. VAUGHAN: I would not agree with that. Every proposition that we put up, and every dollar we spend is carefully analysed as to the results. This hotel would undoubtedly be of very great value to the railway. The railway has the property there. We believe, after studying the situation very carefully, that it will be a paying proposition. We can obtain a reasonable return on the investment as well as very substantially improve the railway's position.

Mr. JACKMAN: I realize that from the figures and from the amortization which you have given although when I got down to that rather essential

feature of what is the rate per room per day it was not known. I suppose one can make estimates without starting at the bottom although frequently I like to go right to the bottom and find out how it is built up. But it comes back to the point again that you could not, if you were an ordinary private concern and did not have the government of Canada behind you or parliament to advance you capital moneys, get into a situation like this. Would you not be stopped if you were on your own and not able to draw on what apparently has been an unlimited treasury?

Mr. VAUGHAN: Well, of course—

Mr. JACKMAN: It may be sound but how would you finance it if you did not have the government behind you?

Mr. VAUGHAN: If we did not have the government behind us we would not be in the position we are in. To begin with, we would have a much better financial set-up and we would not be operating a lot of unprofitable lines. There is no doubt about that. On the other hand, if we were a private institution and if I owned that property personally and could raise funds to build a hotel there I believe it would be a good paying proposition.

Mr. JACKMAN: It is the testing place of the market which gives validity to our views and our judgments on things. In other words, we may have an idea that we can go into business and do well out of it, but by the time we have tried to raise money from our friends and then gone to the bank to raise some working capital sometimes our point of view is changed.

Mr. VAUGHAN: It may be. All I can say to you is that from a very close study of this situation we think it is a good business proposition. We think it will be very useful to the railway and improve the railway's position very materially. The railways of South Africa are building hotels. The railways are building more hotels in England. They do not do it in the United States because they are not permitted to do it under the I.C.C. rulings.

Mr. JACKMAN: While some of the American railroads have not done very well it has not interfered very much with the service to the people. There are just as good hotels or better all through the United States.

Mr. VAUGHAN: Except their situation is different to ours. It may not be different in Montreal, but in some of these other places where we have built hotels it is different. We put up a hotel in Edmonton when there was no first class accommodation there, and the same in Saskatoon. You are aware, of course, that the C.P.R. has double the investment in hotels we have.

Mr. JACKMAN: They may not be profitable there, either.

Mr. VAUGHAN: They consider they have been necessary to the welfare of the railway, I think.

Mr. JACKMAN: What was the reason for the I.C.C. ruling against the railways mingling in the hotel business?

Mr. VAUGHAN: As you know the I.C.C. does not permit railways to go into any outside business of any kind. They do not operate their express. They do not operate commercial telegraphs. They are not allowed to operate passenger aeroplanes. They are not allowed to operate steamships.

Mr. JACKMAN: Is the I.C.C. composed of men who have the public interest at heart?

Mr. VAUGHAN: They are supposed to be.

Mr. JACKMAN: Or, are they just difficult to get along with?

Mr. VAUGHAN: That body is supposed to be a properly constituted body which has the interests of the country at heart.

Mr. JACKMAN: If the railways of this country, and particularly the C.N.R. with public money behind it, are going to go into every venture which may

return a profit, there would apparently be no end to what they might do because you have an unlimited amount of money behind you.

Mr. VAUGHAN: I can assure you that is the last thing in the world we want to do. Across my desk every day there is somebody who wants us to go into something, but we have declined right along to put money into various things which might bring a return to the railway because we considered it was not in the railways' province to do that. I think this is a little different. We already have a string of hotels. We are in the hotel business. We own this land, which is very valuable, on which we pay taxes, and we believe that instead of having an outgo we can make a return on this investment.

Mr. JACKMAN: Was hotel occupancy down last year over the year before?

Mr. VAUGHAN: I do not think occupancy was down. The earnings were down a little on account of the increased wages we had to pay.

Mr. JACKMAN: Your service charges were more?

Mr. VAUGHAN: There was very little difference in the service charges. Earnings may be a little higher now because we have been granted permission to increase rates.

Mr. NICHOLSON: Did I understand Mr. Cooper to say that you could not make money on the hotels during the war, or did not make money in hotel operation?

Mr. VAUGHAN: I said we were not permitted to increase our rates.

Mr. NICHOLSON: I understood Mr. Cooper to say that this morning.

Mr. VAUGHAN: We made money on our hotels all during the war. We did not make any great amount of money but we did make money. All the hotels individually were profitable, but that happened the world over, you might say.

Mr. NICHOLSON: You did better than you did in any other five years prior to the war?

Mr. VAUGHAN: Undoubtedly.

Mr. JACKMAN: What was your rate of occupancy over the system for last year and the year before?

Mr. COOPER: I have it by hotels. Do you want it for the Chateau?

Mr. JACKMAN: I want the average figure. Approximately will do.

Mr. COOPER: I have it by hotels. I have not the average over the system.

Mr. JACKMAN: Is it 80 or 90?

Mr. COOPER: The Chateau was 84. The Prince Arthur was 84. Minaki was 82. Fort Garry was 89, Macdonald 93, Jasper Park 82, Bessborough 79. You might say about 83 or 84 per cent on the average.

Mr. NICHOLSON: Have you comparable figures for a number of years ago, say 1937 and 1938?

Mr. COOPER: No, but we can get them. I do not have them here.

Mr. JACKMAN: Would 1939 be the break-even point in hotel occupancy?

Mr. VAUGHAN: We figure on the new hotel we can break even at 60 per cent.

Mr. JACKMAN: Did you ever break even at 60 per cent on the hotels presently owned and operated?

Mr. VAUGHAN: As I said this morning this hotel that we propose to build in Montreal—I do not know when we will build it—will be constructed in a way that will enable us to operate it much more economically than any of our other hotels can be operated.

Mr. JACKMAN: There is no doubt that 80 per cent occupancy which you have enjoyed in recent years is extraordinarily high in relation to common experience.

Mr. VAUGHAN: I think that is a fair statement, but we believe the hotel business is going to be good for some time. Tourists are pouring into this country. We have to turn them away if there is not accommodation for them. They bring a lot of money into the country.

Mr. LACROIX: There is a lack of accommodation in Montreal right now. There is no doubt this new hotel will be entirely occupied. It would be a good proposition. There is no doubt about it.

Mr. JACKMAN: I wonder if some officer familiar with the details on hotel occupancy can tell the committee what the experience was in the latter 30's when we had a fair average of business.

Mr. VAUGHAN: It was not very good.

Mr. JACKMAN: Not all good, but one or two years were good.

Mr. VAUGHAN: Some years it was good and some years it was not good, but our experience was no different to that of the other hotels.

Mr. JACKMAN: I wonder if one of the officials could estimate what the break-even point was during those years?

Mr. VAUGHAN: I hope you do not want us to go back to the depression days.

Mr. JACKMAN: No. 1937 was not a bad year.

Mr. NICHOLSON: You stated this morning that you have $38,000,000 invested in hotels over the system. How much trouble would it be to give us a complete picture of all of the operation up to date since you have been in the hotel business?

Mr. VAUGHAN: I do not think that would be difficult. It has been filed with the board every year.

Mr. NICHOLSON: And what interest on your investment you could pay on your operation?

Mr. VAUGHAN: It can be done. We can give you what you want in connection with hotels. How far back do you want to go?

Mr. NICHOLSON: When was the Chateau taken over?

Mr. VAUGHAN: I guess about thirty years ago.

Mr. JACKMAN: Perhaps we could put the question this way. Since when have the hotels been in the black?

Mr. VAUGHAN: We will look that up.

Mr. COOPER: As a group they have been in the black right along.

Mr. JACKMAN: All during the 30's?

Mr. COOPER: I do not say every hotel but as a group, yes.

Mr. NICHOLSON: Without including interest on your capital?

Mr. COOPER: I would not include interest on capital, no.

Mr. JACKMAN: I would expect you to make an operating profit. You are not including interest on the capital or, under your railway accounting, depreciation on the hotels?

Mr. COOPER: No.

Mr. VAUGHAN: But I think you will agree that some of our hotels probably are run on a little higher standard than they would be if they were ordinary commercial hotels. Take, for instance, the Chateau Laurier. We could cut down the services very materially and make a lot more money, but we would not think it was in the interests of the Dominion of Canada to do that.

Mr. HATFIELD: You could not cut down very much on food.

Mr. VAUGHAN: Do you not get enough to eat?

Mr. HATFIELD: I get enough to eat but it is not cooked.

Mr. VAUGHAN: That can be very easily corrected.

Mr. HATFIELD: It is prepared in such a way. I never ate food like it in a hotel.

Mr. VAUGHAN: This is the first complaint I have ever heard about the food in the Chateau.

Mr. McCULLOCH: I have been there for twelve years and I find the food very good.

Mr. LACROIX: I have been there for fifteen years and I find it to be very good.

Mr. HATFIELD: I do not know what you consider to be good food.

Mr. JACKMAN: It is not as good as it used to be. I think you will have to admit that.

Mr. VAUGHAN: It is still pretty good.

Mr. JACKMAN: Not bad.

Mr. HATFIELD: You cannot find a hotel like it in this country.

Mr. NICHOLSON: Have you estimated what the profits on the cocktail bar will be?

Mr. VAUGHAN: Yes, some estimates have been made in that connection. We think they are going to be very good.

The CHAIRMAN: Any other questions?

Mr. HAZEN: I asked for some information about the earnings of the roads in the United States.

Mr. VAUGHAN: We have that here.

Mr. HAZEN: I understood you to say this morning you had three main lines in the United States?

Mr. VAUGHAN: Yes, but they are really operated under different names. The line to Portland is operated under the name of the Canadian National Railways.

Mr. HAZEN: This is the line to Portland?

Mr. VAUGHAN: That is the line to Portland.

Mr. HAZEN: Oh, I see. Thank you.

Mr. LOCKHART: Is that a lengthy statement? Can we have it read?

Mr. VAUGHAN: This is a statement of earnings and expenses of what we call our lines in New England. That is the line that runs from a point near Island Pond, Vermont, to Portland.

Mr. HAZEN: How many miles is that?

Mr. VAUGHAN: Between 150 and 160 miles. Freight earnings in 1946 were $1,732,000. Passenger earnings were $144,000. Other earnings were $217,000. Total gross earnings were $2,094,000. Operating expenses were $2,674,000, leaving a deficit on that portion of the line of $580,307. In 1946 we handled 88,505 tons of wheat on the line. In 1945 we handled 489,819 tons of wheat. Does that give you the information you want, Mr. Hazen?

Mr. HAZEN: Thank you very much.

Mr. HATFIELD: What do you propose to do with the old sheds you have at Portland? They are very much in need of repair?

Mr. VAUGHAN: They are in need of repair. One of the elevators was dismantled. Some of the sheds have been dismantled, but the others, of course, are there to take care of the business that is offered.

Mr. HATFIELD: The cargo sheds are not in very good shape. I do not know about the elevator.

Mr. VAUGHAN: Some of those sheds were rented during the war to the United States government. We hope to fix them up sufficiently so they will not be dangerous, anyway.

Mr. HAZEN: The only question I might ask is, do you consider it advisable to operate a line of railway that shows a deficit of $580,000?

Mr. VAUGHAN: We could not do otherwise. The I.C.C. would never give us permission to abandon that line, and besides we have a 999 year lease made by the Grand Trunk many years ago on portions of that line which obligate us to operate it.

Mr. JACKMAN: You lease it to other American railroads?

Mr. VAUGHAN: No, we leased this from companies that were in existence at that time.

Mr. JACKMAN: Companies not owned by the system?

Mr. VAUGHAN: Not owned by the system. We paid a rental for the railway. We own it to-day. We did not own it up until a year or two ago, but we own it to-day.

Mr. JACKMAN: As a matter of perhaps theoretical interest could you not abandon that line?

Mr. VAUGHAN: No, the I.C.C. will not permit a line to be abandoned as long as that portion of the country needs railway service regardless of what the financial results are. They will not allow anybody to abandon a line purely on financial results.

Mr. JACKMAN: It is a nice type of business.

Mr. VAUGHAN: The Board of Transport Commissioners would not do that in Canada either. There are any number of railways in the United States which would like to abandon portions of their lines, but the I.C.C. would not permit them to do it.

Mr. JACKMAN: You are seized with the public interest then?

Mr. VAUGHAN: We have to be.

Mr. LAPOINTE: Do I understand you to say that the Board of Transport Commissioners will not allow the abandonment of a line merely on the financial results the company produces?

Mr. VAUGHAN: That is one of the reasons advanced by us, but I have never known the Board of Transport Commissioners—perhaps I may be wrong—to consent to the abandonment of a line purely on account of the financial results obtained. They always take into consideration whether there are other forms of transportation that will give public service if that line is abandoned.

Mr. HATFIELD: Do you have any service on that line from Island Pond to Portland?

Mr. VAUGHAN: We have a daily passenger train from Montreal to Portland as well as freight trains.

Mr. HATFIELD: They pick up in the United States?

Mr. VAUGHAN: Yes. For instance, there are some large paper mills down there. There is the Brown Paper Corporation at Berlin, New Hampshire, and other industries which are served by our railway.

Mr. LAPOINTE: Mr. Vaughan knows what I am thinking. The reason I brought it up was that every time the case has been argued before the Board of Transport Commissioners the argument of the railway has always been based on the bad financial results of the year's operation?

Mr. VAUGHAN: Yes, sir.

Mr. LAPOINTE: I have noticed similar cases where abandonment was asked by the railroad for exactly the same reasons.

Mr. VAUGHAN: When we want to abandon a line we use every reasonable argument as to why we should do it, and the principal reason we do want to abandon a line is because it does not pay. There is no doubt about that, but the Board of Transport Commissioners in considering these matters always takes into account whether there is any other form of transportation which will enable the people in those communities to be provided for.

Mr. WARREN: I imagine most members have had experiences of that nature.

Mr. LAPOINTE: Most of them sad experiences, too.

Mr. JACKMAN: Perhaps Mr. Cooper can tell me why the amortization of discount on funded debt is $537,000 in 1946 as against $1,183,000 in the previous year, half as much, and what happened to your financial set-up during that time?

Mr. COOPER: I think the explanation of that is in 1945 we called some bonds, and where bonds are called before their maturity date then any unamortized discount at that time must be written off.

Mr. JACKMAN: In that year.

Mr. HATFIELD: I see you spent twice as much on advertising in 1946 as you did in 1945.

Mr. VAUGHAN: We did step up our advertising very considerably in 1946, but it is still considerably below what it was some years ago.

Mr. HATFIELD: I suppose you did not have to advertise during the war?

Mr. VAUGHAN: No, we did not have to advertise to any great extent, but we feel that the time has now come when it is necessary to again do some advertising.

Mr. NICHOLSON: I notice the new timetables are out, and the transcontinental trains both leave Vancouver within half an hour of each other. I was wondering if you could not have one leave in the morning so that travellers could see the province by day.

Mr. VAUGHAN: That matter has been up a great many times and has been studied very carefully by our traffic and operating officials. They all come back to the point where they consider it is in the interests of the public, from their investigation of the thing, and certainly in the interests of operation, to have the two trains run fairly close together.

Mr. NICHOLSON: It would seem to me, in the summer time particularly, when so many people are travelling it might be a good arrangement.

Mr. VAUGHAN: Perhaps Mr. Walton can tell us something on that.

Mr. WALTON: As Mr. Vaughan says, we have had the situation canvassed pretty extensively. Our officers who have so canvassed the situation tell me that there are eight or ten in favour of the evening departure from Vancouver for one who is favourable to the suggestion of leaving in the morning. Apparently it is the same situation that applies in so many of the large cities where people are anxious to transact their business during the day and then be on their way at night. You can probably tell from your own movements whether or not that is your customary procedure but our people tell us that the public reaction is in that direction. As far as the mountain scenery is concerned those trains running on the schedules they do pass Mount Robson and Jasper and vicinity in the daylight hours although they miss the scenery closer to the coast.

Mr. NICHOLSON: Both trains get to Edmonton late at night. I would imagine people going to Edmonton might prefer to get in there in the morning. They both get into Saskatoon at an unearthly hour in the morning.

Mr. WALTON: Yes, although there is a sleeper set off there to take care of that awkward hour of arrival.

Mr. NICHOLSON: A few years ago you ran a crack train through Regina. I imagine the capital city of Saskatchewan might deserve a little better service than the C.N.R. provide. Have you given consideration to running one of those transcontinental trains through Brandon and Regina?

Mr. WALTON: That also was looked into and in view of the time loss that would be taken to cover Brandon and Regina it was concluded they should operate on the main line.

Mr. HATFIELD: What is the idea behind changing the schedule at different periods of the year?

Mr. WALTON: Different running times for the trains, you mean?

Mr. HATFIELD: Yes.

Mr. WALTON: Usually that is in response to some requirement in the cities, something of that kind. On the whole, long distance trains do not change time greatly.

Mr. HATFIELD: I know they do not. What is the idea for changing at all?

Mr. WALTON: The change that has just been made, for example, in the transcontinental train from Vancouver to Montreal is made in order to secure an earlier arrival in Montreal, nine o'clock instead of eleven fifteen as it was during the war.

Mr. HATFIELD: How many times do you change your timetable?

Mr. WALTON: Two changes, when daylight saving time comes in and goes out. Those changes are necessary because a large number of local services are changed to coincide with daylight saving time. Other than that, the customary changes are made in June and September when the summer trains come on and are discontinued.

Mr. HATFIELD: Is that not an old custom and one which costs a lot of money?

Mr. WALTON: The supply of timetables is regulated according to the length of time the timetable will be in effect. We do not order as many as we would if it were in effect for the whole year. There are quite a number of trains which come on in the summer and go off in the fall.

Mr. NICHOLSON: How much time have you cut off the train from Vancouver?

Mr. WALTON: Two hours and five minutes.

Mr. NICHOLSON: Those who travel through the mountains seem to think your train goes a good deal slower than it might. Is there some arrangement with the Canadian Pacific which would account for that?

Mr. WALTON: No, we think it is a reasonable speed for mountain conditions.

Mr. NICHOLSON: It appears as though the Canadian Pacific trains go as fast as would be safe to travel, whereas your trains travel at a leisurely rate and could go faster since you have a better roadbed.

Mr. VAUGHAN: Those trains are all timed so they will arrive and depart from Vancouver, Montreal and intermediate stations at convenient times. You cannot make them convenient to all people, as you will appreciate, but at the important centres we do try to have trains arrive and depart at convenient times. In connection with this transcontinental service, the Canadian Pacific and ourselves make practically the same time.

Mr. NICHOLSON: I suppose you could cut off two hours between Vancouver and Winnipeg?

Mr. VAUGHAN: We might have to depart and arrive too early at some other place.

Mr. MUTCH: You could cut a substantial amount off the time between Montreal and Winnipeg, if it were desirable?

Mr. VAUGHAN: Yes.

Mr. MUTCH: I have had the experience of being two hours late and yet arriving on time in Winnipeg.

Mr. WALTON: There is some difference between the occasional case where a train is late and able to make up time and being able to do it day in and day out.

Mr. MOORE: Could the time be cut between Boston Bar and Vancouver?

Mr. VAUGHAN: There would not be much object in doing that if we were going to bring our train into Vancouver too early in the morning. What time do we arrive in Vancouver now?

Mr. WALTON: It does not change the arrival of west bound trains. It is around 8.30 or nine o'clock in the morning.

Mr. VAUGHAN: That is early enough for most people to arrive.

Mr. WALTON: The Toronto train arrives at 8.45 and the Montreal train at 9.20.

Mr. HAZEN: You acquired 856 box cars last year, do you propose getting more box cars this year?

Mr. VAUGHAN: Yes, sir. You will find that when you come to our budget. There is quite a lot of equipment in it.

Mr. HAZEN: Are there a good many more box cars on order this year?

Mr. VAUGHAN: Yes, we have a lot of box cars on order.

Mr. HAZEN: May I ask how many?

Mr. VAUGHAN: This is all given in the budget, but I can give you all the cars on order.

Mr. HAZEN: No, just the box cars.

Mr. VAUGHAN: There are 3,700 box cars on order for Canadian lines and 500 for the U.S. lines.

Mr. HAZEN: Do you expect any shortage of box cars during this year?

Mr. VAUGHAN: I think the situation will be a little tight on box cars during the year, but the worst is over. We had very unusual weather this year which delayed the movement of cars very considerably, as you know. We had storms all over the country, much more severe in some parts than were ever known before. This delayed the movement of traffic.

Mr. HAZEN: I understand there was a shortage of about 15,000 box cars in the east last year.

Mr. VAUGHAN: I do not think there was anything like that, Mr. Hazen.

Mr. HAZEN: I understood the shortage in the west was around 8,000 or 9,000.

Mr. VAUGHAN: There was not a shortage of that much. There was a shortage of cars for grain, but we have pretty well caught up with that. You must take account of the fact that a great many industries have stepped up their production in Canada, such as the paper and pulp people as well as various other industries. They are now producing to capacity and they require more cars.

The CHAIRMAN: Mr. Moore, you were going to ask a question?

Mr. VAUGHAN: Since 1940 we have added 17,966 freight cars.

Mr. WALTON: Through to the end of 1946.

Mr. JACKMAN: How many have you discarded?

Mr. COOPER: 4,638.

Mr. MOORE: Would the tonnage of the new cars be approximately the same as the old ones?

Mr. VAUGHAN: Not compared with the very old cars, but with the cars which were ordered in the last four or five years, there is little difference in the tonnage.

Mr. EMMERSON: I was going to ask whether you were handicapped by your loaded cars being held up for ships at the port?

Mr. WALTON: There is always a certain lag in connection with those cars. They are loaded on permits based on advice as to when the shipper expects the boat in. If that ship has to go in for some repairs or is delayed on the way over, any of those conditions would delay the discharge of the contents of those cars.

Mr. EMMERSON: Was this condition particularly bad on the Atlantic coast this year?

Mr. WALTON: Well, we had a lot of cars delayed, many for the reason of which you speak and some on account of weather.

Mr. EMMERSON: The delays due to weather would be in the central region?

Mr. WALTON: Yes.

Mr. EMMERSON: Not many of those delays would be in the Atlantic region?

Mr. WALTON: No, it was a very good winter in the Atlantic region, as you know.

Mr. HATFIELD: Is it not true there were a lot of cars in storage on sidings during February and March in the Atlantic division, empty cars? I understood that on one siding in the Atlantic division in February and March when the shortage of cars took place you had 300 empty cars.

Mr. WALTON: I do not know where that would be.

Mr. HATFIELD: I can tell you, it is east of Napadogan, on the siding you built for the munition dump.

Mr. WALTON: That may be so.

Mr. HATFIELD: They were stored in the summer time and they stayed there during that period.

Mr. VAUGHAN: They must have been cars which were not fit for service.

Mr. EMMERSON: Those cars may have been stored there waiting to go to the shops.

Mr. WALTON: There was also a slow movement last winter due to the unprecedented weather we had.

Mr. VAUGHAN: There never would be 300 cars stored there in the summer which would stay there during the winter if they were fit for service.

Mr. HATFIELD: I was told of this by a conductor on your own line.

Mr. VAUGHAN: I am not able to say definitely, but offhand I would say the conductor did not know what he was talking about.

Mr. MCLURE: Is there a shortage of refrigerator cars?

Mr. VAUGHAN: Yes; we depend for our supply of refrigerator cars, to some extent on the cars we get from the Refrigerator Car Company. We own a number of refrigerator cars. We are ordering more refrigerator cars. We are building some and have ordered some to try and improve our situation.

Mr. WALTON: We are building them in the Transcona shop.

Mr. NICHOLSON: What is the situation in regard to diesel operated units?

Mr. VAUGHAN: You mean diesel locomotives?

Mr. NICHOLSON: Combination cars, oil-electric, I think you call them.

Mr. VAUGHAN: We have not added much to that equipment. We have a good many such cars in operation. I do not know whether we have a list here of the number of oil-electric cars which we have.

Mr. JACKMAN: On some of the branch lines where traffic during most of the year, at least, is not very heavy, is it cheaper to operate a diesel locomotive with a few cars attached to it than it is to operate the old type of steam locomotive which you use on most of these branches?

Mr. VAUGHAN: I do not think it would be on the branch lines where traffic is light. Diesel equipment is expensive and you have to get intense use out of diesel equipment to make it pay. It is the availability of the diesel for intensive use which makes it economical.

Mr. JACKMAN: The capital cost of a diesel engine—I am not speaking of the big moguls or the great big ones, but take a small one such as I travelled on in another country recently—would the cost of a small one capable of hauling three or four cars perhaps, or a half dozen cars—I do not know what would be reasonable—would it be very much more than the cost of a locomotive of the old type?

Mr. VAUGHAN: I do not know that it would be today; but we, of course, have many light steam locomotives on branch lines which are very suitable for this service. We pay for a diesel switcher, which is a light locomotive, about $110,000, delivered in Canada duty paid. Some of the steam locomotives we have operating on these branch lines did not cost us $30,000. They are getting old and obsolete. They use considerable coal. Your argument is, of course, it might be more economical to discard those engines and buy diesel equipment. There are no diesel locomotives as yet manufactured in Canada. The time may come when they will be manufactured in Canada. There are none made here as yet. We ordered some small diesels for Prince Edward Island and they are being partly built in Canada.

Mr. NICHOLSON: Between Saskatoon and Prince Albert you have a small diesel unit operating. This would appear to be inexpensive. How many of those have you?

Mr. VAUGHAN: 37 for the system.

Mr. WALTON: We are not planning any additions to those.

Mr. NICHOLSON: Would not that type of equipment enable you to compete with the buses a little more successfully? Some of our branch lines are complaining about getting trains three times a week, or a train once a day which picks up the local freight. I imagine something will have to be done if your local passenger service is to be made attractive to these people.

Mr. WALTON: One thing which slowed us down in getting more of these cars similar to the one operating between Saskatoon and Prince Albert is the fact that there are only certain places where they can be used to advantage. We have to move them around from place to place at various times. Sometimes the travel gets too heavy for the amount of accommodation there is in a diesel car, or the trailers it can haul, in which case we transfer it to some other place. There are not an unlimited number of places where such a unit could operate satisfactorily. There has been one operating between Saskatoon and Prince Albert for a considerable time and it has done a good job.

Mr. MUTCH: How are they in the snow?

Mr. WALTON: For real heavy snow, it is advisable to change to a steam locomotive, but in a light snow they would get through.

Mr. McCULLOCH: In regard to the train which leaves Ottawa at four o'clock to connect with the Ocean Limited, if that train is ten or fifteen minutes late on arrival at Montreal, you have to get out of the Ottawa train, have your baggage taken upstairs and then take it down again to the Ocean Limited. Under the old arrangement we could step off the four o'clock train and cross the platform to the Ocean Limited, but now we cannot do that.

Mr. WALTON: I will have that looked into, Mr. McCulloch, to see the reason for that. On many occasions the trains have been side by side.

Mr. VAUGHAN: We used to plan to have that done. I do not know any reason why it should not be done. We will look into it.

Mr. MCCULLOCH: Coming up on April 1st, I was in car 27. I think that car must be very nearly 50 years old. It is the roughest car I was ever in.

Mr. VAUGHAN: What kind of car, a sleeper?

Mr. MCCULLOCH: Yes, I was in drawing room B. I ordered a drawing room a month ahead and paid for it. When I got down to the train, someone else had that drawing room. It just happened there was this drawing room vacant and I obtained it.

Mr. VAUGHAN: Probably that drawing room was over the wheels, which is where the drawing rooms are in the older cars. Probably the car needs shopping. We have stepped up our staff to shop as many cars as we can since the war, but we have not caught up as yet.

Mr. MCCULLOCH: The main thing is that connection between the four o'clock train and the Ocean Limited.

Mr. MCLURE: Is it planned to place diesels in service on the whole of the Prince Edward Island railway?

Mr. VAUGHAN: Yes.

Mr. MCLURE: It would take about how many?

Mr. VAUGHAN: About twenty locomotives.

Mr. WARREN: I think Mr. Lapointe has a plan for that old car.

Mr. LAPOINTE: I am collecting all 50 year old cars for that little trunk line in Lotbiniere. What is the situation with regard to passenger cars? Is there any necessity for feeding out to these little branch lines all the obsolete equipment the railroad has? The last time I travelled on that line in the winter, we had one of those old cars with the stove in it. It took us from ten minutes to six, which is the time it leaves Levis, to 12.30 to get to the terminal which is 34 miles away.

Frankly, I quite realize that in the summer, possibly the local population does not encourage the Canadian National as much as it should. But, in the winter, it is the only means of travel. There are absolutely no roads open. These trains are packed and people are standing up in the aisles.

Mr. VAUGHAN: Perhaps if they would use the railroad in the summer as well as the winter, they would get better equipment.

Mr. LAPOINTE: Possibly if we got thè proper service in the winter, we could encourage the people to use the railroad in the summer.

Mr. VAUGHAN: We have a lot of equipment on order. We will enquire into the situation and see if we can do anything about it.

Mr. LAPOINTE: It is a mixed train, passenger and freight service, but, I do not see any reason for stopping for an hour and a half in the middle of a field as is done, where there is no station. I do not know whether the engineer has his supper or what happens, but that is a regular thing. As a matter of fact, people do not complain about it any more. They take it as a sort of routine.

Mr. VAUGHAN: That is not a very busy line.

Mr. LAPOINTE: It runs regularly. As I say, in the wintertime it is the only means of transportation for at least ten municipalities. There are no roads open.

Mr. LOCKHART: May I confirm what Mr. Lapointe says on this matter. We are travelling up from Toronto to the border on a train which is operating practically all the time with these old cars with stoves in them. This train is running twelve months in the year. I was just about to ask Mr. Vaughan or

someone in authority if they could give us some idea as to when that situation might be corrected. I think they have had plenty of notice about it.

Mr. VAUGHAN: As you know, it has been next to impossible to get passenger equipment during the war. In fact, the manufacture of passenger equipment was banned during the war and we could not get any.

Mr. LOCKHART: But it is two years since that ended.

Mr. VAUGHAN: Yes, but we have had passenger equipment on order for some time and have not got it. We have had passenger cars on order for a year and we have not received them.

Mr. LOCKHART: May I say, Mr. Vaughan, that I think I brought it to your attention some time ago. The train leaving Toronto at 1.30 has five air-conditioned cars travelling west of Hamilton, all nicely upholstered with pivot seats. Travelling from that point on to the border, at which time there were a lot of United States people who were complaining very bitterly of it, we had the old stove cars about which Mr. Lapointe complains. The air-conditioned cars were taken off at Hamilton and we went on through to the border with the United States people who are used to travelling on better trains, riding in these old cars. I wrote a letter to the minister pointing that out, and that has been going on for some time. I think it was probably brought very definitely to your attention because I checked the equipment. I can give you the numbers of the cars.

Mr. VAUGHAN: Is that on a specific train?

Mr. LOCKHART: The one leaving Toronto at 1.30. Five cars, one a buffet car, were going west of Hamilton and the other three cars were of the very obsolete type. The conductor was kind enough to say he was going to try to have one of those air-conditioned cars carried through to Buffalo.

Mr. VAUGHAN: Was that a condition which occurred recently?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: We are short of passenger equipment, but we will look into the matter. I think people going to the Niagara frontier are entitled to better equipment.

Mr. LOCKHART: They are writing to me all the time. I wrote to the minister about it and he probably passed the letter on to you.

Mr. VAUGHAN: Yes, he passed it on to us. We have taken it up with Mr. Pringle in Toronto. We hope to be able to improve that situation.

Mr. LOCKHART: In view of the fact we are going to spend many millions in hotels, office buildings and so on, I might say there is also a service which has fallen into disrepute and that is the boat service from Toronto crossing Lake Ontario. How long, Mr. Vaughan, do you suppose it will be before there will be any improvement in the service across the lake, or will it be discontinued?

Mr. VAUGHAN: That is a very difficult question to answer, Mr. Lockhart. I know the situation very well. You have one ship which is not too old and one which is very old operating there. They do perform a service. They carry about 1,000 passengers each. The Northumberland is not the type of boat we would like to have there, and we would not have her there if we had anything to take her place. That is another case where before the war we had thought seriously of abandoning the operation of these vessels.

Mr. LOCKHART: Yes, but I mean are they continuing?

Mr. VAUGHAN: Yes. And I think you were one of the ones who took it up at that time.

Mr. LOCKHART: Yes.

Mr. VAUGHAN: Then the war came along and the boats did reasonably well during the war because people could not get gasoline with which to operate

their automobiles. We intend to operate that service this summer. Some people have approached us with a view to selling the boats to them. If we did sell, of course, a condition would be that they continue to operate the boats in this service. We have done nothing about that as yet, but we intend to carry on that service this summer.

Mr. Lockhart: There is no improvement in sight?

Mr. Vaughan: Not immediately.

Mr. Lockhart: Mr. Chairman, I might point out that a number of complaints have come from the people living on the peninsula there, and there are a lot of nice people, American citizens, who are inclined to use the boats and who like to travel that route but who are terrified by the type of equipment; not only the old steamers but they complain of other conditions as well. That is why I thought the matter should be brought up.

Mr. Vaughan: We are trying to improve the inland situation there. We have a number of additional buses on order.

Mr. Lockhart: You are going to improve the service?

Mr. Vaughan: We have improved that situation very considerably, as you know; but we have not been able to do anything in a large way. We have a number of items of equipment on order at the present time for that service.

Mr. Lockhart: May I ask Mr. Vaughan to go into that situation before he throws $16,000,000 into that other thing.

Mr. Mutch: I would like to add a little to Mr. Lockhart's observations with respect to the American tourist. In the part of the country from which I come we have a lot of very antiquated equipment, it is used particularly on our branch lines.

Mr. Lockhart: That is not British Columbia, I hope.

Mr. Mutch: No.

Mr. Walton: If I might say a word before you leave the matter of passenger equipment; we started out at the beginning of 1946 with a stepped-up program of repairs to existing passenger equipment and we have made only a moderate improvement in conditions because of the slow receipt of materials and also the limited extent to which we could get qualified workmen to do the job. We have made some advances in it and we have continued to, but we are not making anything like the progress we had hoped to at the beginning of 1946. Since the close of the war the material situation has deteriorated. I am speaking now of the repair of existing equipment. The difficulty with respect to getting new equipment is even greater and, I believe, is well known.

The Chairman: Gentlemen, if it is permissible for me to say a word or two; on the line between Toronto and Windsor there have been some two chair cars. I understand they were rebuilt from hospital cars, and I have heard some very nice comments on those cars. I do not know whether any of the gentlemen present have been on them or not. The comments have been very appreciative, and I understand that they were made from hospital cars used during the war. Is that so, Mr. Vaughan?

Mr. Vaughan: Yes.

Mr. Hazen: The first page of Mr. Vaughan's report gives the interest on the funded debt, $23,358,514, and interest on government loans $21,000,000-odd. I wonder if we could have placed on the record the debt of the railway from 1937, when we had a capital revision, to 1946. I suppose that would be the funded debt and the Dominion loans and the share capital.

Mr. Cooper: We could give you that for each year.

Mr. Hazen: Have you got that before you? Would that be any trouble.

Mr. COOPER: That would be no trouble whatever.

Mr. HAZEN: You have it here?

Mr. COOPER: We have it in Ottawa. We could give it to you to-morrow.

Mr. HAZEN: Could we have it on record?

Mr. COOPER: Yes, sir.

Mr. HAZEN: Also I would like to have each year from 1937, whether you had a deficit or a surplus, and the amount.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: It says here that in 1946 you had a deficit and the year before, 1945, you had a surplus.

Mr. VAUGHAN: We will give you those figures.

Mr. HATFIELD: Has any consideration been given to the building of a frost-proof potato house on the mainland across from Borden?

Mr. VAUGHAN: The matter has been talked about on different occasions. We did not feel that it was an obligation of the railway.

Mr. HATFIELD: It should be an obligation of the railway. You save a lot of time in your refrigerator cars. These refrigerator cars cross to the Island and probably half the cars you take over there are full of ice. They are set out on some siding and can't be used while the ice is in them. They have to be shipped to some division point and have the ice taken out of them, and it very often takes as much as ten days to get the car back into service, before it can be returned to the mainland.

Mr. VAUGHAN: That matter has been up on different occasions, Mr. Hatfield, and the position we have always taken is that it was not an obligation of the railway but rather an obligation of the potato growers.

Mr. HATFIELD: Well, I think it is an obligation of the railway, myself. In the state of Maine practically all, at least half of the potato warehouses are owned either by the C.P.R. or the B. & A. Railway.

Mr. VAUGHAN: We made an investigation of that not so very long ago, and we found out that most railways over there did not own the potato warehouses.

Mr. HATFIELD: Well, there must have been a change lately.

Mr. VAUGHAN: That is just recently. We sent people to investigate that.

Mr. HATFIELD: I think it would save the railways a lot of money and they would be rendering a useful public service, particularly to Island shippers; and then if you could get a lot of cars across in the fall of the year and have storage on the mainland you would save a great many delays.

Mr. VAUGHAN: Mr. Walton, do you know the average time a refrigerator is over there after it leaves the mainland until it returns.

Mr. WALTON: There is considerable delay, just as you say. I haven't the figures with me, but I know that to be the case.

Mr. HATFIELD: Most of these refrigerator cars come back full of ice, and that is one of the great difficulties in the winter shipping season. It applies to New Brunswick as well as to the Island. Half the cars are placed on the siding and when you go to load them you find there is so much ice in them that they cannot be used until they have been taken away to a division point and thawed out, and that, of course, involves demurrage charges as well as delay. Sometimes they wait at the division point for weeks before they can get a crew to take the ice out.

Mr. VAUGHAN: Well, if any superintendent allows a thing like that to happen he should not be there very long. We will certainly look into the matter of the operation of refrigerator cars on the Island. I know that the Moncton

officials give very close attention to that matter. We certainly want to keep the refrigerator cars moving on the line and keep them loaded.

Mr. Hatfield: They go over to the Island loaded with beef, or something else, and then they come back to be loaded with potatoes or turnips or some kinds of vegetables and the ice has to be taken out.

Mr. Vaughan: A great many empty refrigerators go over there too.

Mr. Hatfield: I know, a great many; but there is a lot of trouble with this ice to which I have referred.

Mr. Vaughan: We will look into that icing situation certainly.

Mr. Moore: During the past eighteen months we have heard quite a bit about the construction of a branch line up in the Flin Flon area into Lynn Lake. I was wondering if you were contemplating the constructing of a branch line from the Flin Flon running through that new area up to Lynn Lake?

Mr. Vaughan: We are not contemplating that at the present time. There would have to be a c onsiderably greater development up there before we could even consider such a branch. We do not think we would be justified in recommending construction of any branch lines unless we can show some return on them.

Mr. Moore: Has not your company been approached with a view to considering it?

Mr. Vaughan: No, sir. We had a tentative survey made of that district by air, but we have not had any approach to build it.

Mr. Walton: No.

Mr. Vaughan: Certainly, nothing has come to me. But, as I said, we have had a tentative survey made by air to give us an idea of the kind of country that would have to be built through if we received such a request.

Mr. Moore: What would be the cost of such a road.

Mr. Vaughan: It would depend on what point it would reach. It would be very expensive building up there. I do not know the distance. I think it is between 175 and 200 miles.

Mr. Moore: I believe the branch they contemplate will be about 48 miles.

Mr. Walton: There would be a possibility of going up there from Flin Flon or of going in from the Hudson Bay railway. In either case the distance would be about 150 miles.

Mr. Vaughan: You could not build a line up there for less than $100,000 a mile. It would average at least that in that kind of country, very rough and rocky.

Mr. Nicholson: Have you had a loss in the operation of the branch you put in to Flin Flon?

Mr. Vaughan: Flin Flon has done very well. That line was built, of course, at their request, according to my recollection and they contributed something towards the cost of construction, the same as with some other lines that we have built.

Mr. Nicholson: And there is a line at Sudbury; are you considering extending that?

Mr. Vaughan: I suppose when the country becomes sufficiently developed the railway may be interested in providing a service, but with what is there now there is little likelihood that anything will be done in the immediate future.

Mr. Nicholson: What is the general policy in connection with branch line construction?

Mr. VAUGHAN: Well, as far as I am concerned, Mr. Nicholson, I feel that the railway should not be asked to build, at its own expense and operate at its own expense, any line which can't return a new dollar for an old one.

Mr. HAZEN: But I see that you are constructing a line this year of some 39 miles.

Mr. VAUGHAN: But we have a guarantee from the paper company which ensures profitable operation of that line.

Mr. HAZEN: We discussed that last year, in committee, as I remember.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Who was the contract let to?

Mr. VAUGHAN: A man named Therien.

Mr. HAZEN: Not a company?

Mr. VAUGHAN: He has his own construction company, the Therien construction company.

Mr. HAZEN: What was the contract price?

Mr. VAUGHAN: $1,036,000.

Mr. HAZEN: Did the contract price exceed the estimate?

Mr. VAUGHAN: I haven't got the estimate here but my recollection is that the contract price was approximately the estimate. We called for tenders and we gave it to Mr. Therien because his tender was the most satisfactory.

Mr. JACKMAN: What would that cost work out to by the mile; 79 miles, costing $1,036,000 would be—?

Mr. VAUGHAN: His part of it is only $25,000 per mile. That does not cover all of it. We do a certain amount of work ourselves such as track-laying and providing steel.

Mr. JACKMAN: But it is a firm contract, there are not escalator clauses in it?

Mr. VAUGHAN: I do not know whether there is an escalator clause in it or not. No, I do not think there is an escalator clause in that, although there are a good many contracts to-day with escalator clauses in them. I do not think there is in that one.

Mr. HAZEN: I understand that the contract price exceeded the estimate considerably.

Mr. VAUGHAN: You are referring to the engineer's estimate?

Mr. HAZEN: Well, the cost of construction.

Mr. VAUGHAN: That is the only estimate we would have, our own engineer's estimate.

Mr. HAZEN: Yes.

Mr. VAUGHAN: I cannot tell you that but I can find out for you. I do not happen to have the figures with me.

Mr. HAZEN: When was the work to be completed under the contract?

Mr. VAUGHAN: We think the work will be completed about the end of the year.

Mr. HAZEN: Is it your intention this year to offer contracts for the balance of the road?

Mr. VAUGHAN: Any additional work to be done that we do not do ourselves we will ask tenders on.

Mr. HAZEN: And there are approximately 55 miles to be built?

Mr. VAUGHAN: It is not our itnention to build beyond the 39 miles at the present time.

Mr. REID: Might I ask a question. On page 9 it states that Canadian National Telegraphs handled more telegrams and cablegrams than in any

previous year, the total exceeding $12,000,000; now, going back to page 4, I find that the revenue is about $200,000 less than in 1945. If you handled more, a greater volume, why the drop in revenue?

Mr. VAUGHAN: Well, I think that is a very good question. I do not know that we have the answer here; we can get it. We will try to prepare an answer to that question for you. It is pretty hard to anticipate them all.

Mr. REID: I would like to take just a little more time on that.

Mr. JACKMAN: It has been the custom to build branch lines and contract out to independent contractors?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: To do the work?

Mr. VAUGHAN: Yes, sir.

Mr. HATFIELD: In regard to that matter of telegrams, I presume that includes telephone services as well.

Mr. VAUGHAN: Why, there are various reasons for that. I would like to get a proper answer to that for Mr. Reid, and I will get it for him.

Mr. REID: Thank you.

Mr. VAUGHAN: We may have had more of our own telegrams handled in that period. I do not know.

Mr. NICHOLSON: May I refer to this branch line question again. Before the depression I understand that you expected to complete branch lines beyond Arborfield and Arufell and up in the Carrot river valley country, a rich farming area. I wonder if we could get information as to how that situation stands to-day, as to whether or not it would be feasible to extend your branch lines to that area to the point that you had in mind before the war.

Mr. VAUGHAN: I cannot tell you off hand whether we have made any study of that situation recently or not.

Mr. WALTON: There has been no recent study.

Mr. VAUGHAN: I will try to get you some information on that.

Mr. MCLURE: Do you operate any trucks for pick-up?

Mr. VAUGHAN: Yes.

Mr. MCLURE: Do you use them to feed your branch lines, to extend your branch line service?

Mr. VAUGHAN: No, we do not operate any trucks outside of our system.

Mr. MCLURE: You do not operate any bus lines?

Mr. VAUGHAN: Well, we have bus lines operating in connection with the railway; we operate in the Niagara peninsula, in Oshawa, and between Port Arthur and Longue Lac.

Mr. MCLURE: Bus lines run down to Tormentine and Borden; why does the Canadian National Railways object to their coming down to the piers with their passengers or to pick passengers up? The Canadian National Railways do not take any objection to an automobile going down or a taxicab, but they have put a charge on buses going down.

Mr. VAUGHAN: I suppose it is only reasonable, these buses are using our facilities and they should pay for them.

Mr. MCLURE: What services would they be using? The road on the Borden side is owned by the province under the act of 1936. The Road Act there eliminates the improvement on it; at least up to a year ago when the Canadian National made some further improvements, and they exact a charge on the buses I understand of $1.50 or $2 a trip.

Mr. VAUGHAN: I do not know that particular circumstance but we will find out about it and give you the reason for it. I haven't any information. I

do know that there was some charge made for buses down there because I understood they were using our facilities.

Mr. McLure: Just recently?

Mr. Vaughan: And competing with us.

Mr. McLure: It is a convenience to the travelling public, especially sections of the province where there are no railway lines and they are taking these passengers direct to the boat.

Mr. Vaughan: It seems to me that we can hardly be expected to facilitate the business of our competitors.

Mr. McLure: I know you are not doing it in this case. The road is owned entirely by the Canadian National Railways; that is, the road where the buses go.

Mr. Vaughan: I am afraid I am not sufficiently familiar with the matter to give you an answer at the moment, but I will find out for you.

Mr. McLure: It is a serious point with us; not that it amounts to much but it is most inconvenient.

Mr. Vaughan: I think there must be some good reason for it and I will find out what it is.

Mr. Jackman: Now, why is it that apparently this branch line into Lynn Lake would cost so much more than the average per mile suggested by you?

Mr. Vaughan: I would say with respect to this contract, Mr. Jackman, that it is not for the complete line. It covers largely the grading, the removal of rock and things of that kind. There is a lot more work to be done than that is covered by the contract.

Mr. Jackman: Then the $26,000 average and the $100,000 average are not comparable?

Mr. Vaughan: When I say $100,000 per mile I am thinking of new rail, stations and equipment and everything that enters into the construction that would cost $100,000 per mile.

Mr. Walton: Also, sir, the aerial survey made showed a terrain which was particularly difficult.

Mr. Vaughan: Mr. Cooper draws my attention to the fact that the total cost of this line will probably be $76,000 per mile.

Mr. Bourget: Is that the general average cost for constructing a line of that kind?

Mr. Walton: No, to-day you could not build a new line of that kind for anything less than $100,000, but on this line we will not be using new steel, we will be using old steel taken up from another line which is being replaced with new steel.

Mr. Jackman: I suppose it is single track?

Mr. Walton: Yes.

Mr. Hazen: Do I understand you to say that it will cost between $75,000 and $100,000.

Mr. Vaughan: Yes, approximately $75,000.

Mr. Hazen: And the contract calls for an expenditure of $36,000.

Mr. Vaughan: That is simply preparing the roadbed for laying the track. All the work in addition to that will be done by ourselves, we have to supply all materials, steel, ties, and things of that sort. The total cost by the time it is through will be approximately $75,000 per mile.

Mr. Hazen: And his contract is for—?

Mr. Vaughan: His is only for a portion of it.

Mr. HAZEN: Less than half?

Mr. VAUGHAN: Yes.

Mr. HAZEN: Less than a third, I would say.

Mr. VAUGHAN: This is what is covers; his contract is for clearing, grading, installation of culverts and trestles. That is what his contract covers.

Mr. JACKMAN: He does not even make the road ready for you. You have to put on the gravel and the top-dressing and everything else.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: If you were to apply modern costs to the whole of your lines you would have a much higher figure on your books?

Mr. VAUGHAN: The replacement cost of our lines to-day would make it much higher.

Mr. JACKMAN: It would be staggering.

Mr. COOPER: The average per mile is $84,000, according to the investment account.

Mr. VAUGHAN: That is cost.

Mr. COOPER: Yes, recorded cost.

Mr. REID: On the first page of your report it states, "traffic moved in heavy volume and, measured in train miles, was only 3·8 per cent below the traffic of 1945. In revenue earned, however, the decrease was 7·7 per cent." Now, if you turn to page 6 it says there, "In passenger service, passenger miles decreased 31·4 per cent," and, "the average length of haul decreased 9·8 per cent."

Mr. VAUGHAN: Yes.

Mr. REID: If the train passenger miles decreased 31·4 per cent and the other 9·8 per cent, how do you arrive at the average of train miles decreasing by only 6·8 per cent?

Mr. VAUGHAN: I think Mr. Cooper can explain that statistic to you.

Mr. COOPER: The passenger train miles decreased only 4·1 per cent.

Mr. REID: It says on page 6, that operating expenses were reduced 21·4 per cent.

Mr. COOPER: Passenger miles are not passenger train miles; passenger miles represent the number of passengers carried one mile and it has nothing to do with the train miles. The passenger train mileage is shown further on and it decreased only 4·1 per cent.

Mr. JACKMAN: You are not giving as much service.

Mr. VAUGHAN: We have to run practically as many trains but there are fewer people on them.

Mr. COOPER: The number of passengers per car decreased by 20 per cent.

Mr. REID: You speak of car miles decreasing by 20 per cent—

Mr. COOPER: Yes, there was 20 per cent less in the number of passengers per car than there was the previous year; that is, every car carried on the average 20 per cent less passengers than in the previous year.

Mr. EMMERSON: In other words, more people got a chance to get a seat this year than last?

Mr. COOPER: That is right.

Mr. JACKMAN: I understand you have put an extra train on between Ottawa and Montreal for Friday night; is that so?

Mr. WALTON: No.

Mr. JACKMAN: Did you just change the time?

Mr. VAUGHAN: That was not our train.

Mr. JACKMAN: Oh, that was your competitor's train?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: How about the pool train to Quebec, do you operate that?

Mr. VAUGHAN: Yes, we are interested in the service between Montreal and Quebec, which is a pooled service.

Mr. LOCKHART: There are one or two other matters on which I would like to have some information. One is in connection with operating revenue. I notice that demurrage has increased this year over last, 1946 over 1945 by half a million dollars; what is the explanation of that?

Mr. VAUGHAN: I think that is largely due to strikes, such as the Steel Company of Canada.

Mr. LOCKHART: Holding up the cars?

Mr. VAUGHAN: Yes.

Mr. LOCKHART: I have never heard of any increase in rates or anything of that kind.

Mr. HATFIELD: Oh yes, there was an increase in your demurrage rates.

Mr. WALTON: There was some time ago, but it would not affect the increase in 1946 versus 1945.

Mr. VAUGHAN: This is the explanation we have here. This was due to cars held in strike-bound plants at Hamilton, Welland, Pontiac, Detroit and Flint.

Mr. LOCKHART: I think that explains it. Further up, in the operating revenue statement, I notice there has been a drop in the Railway Express Agency revenue of over $400,000. What is the explanation for that?

The CHAIRMAN: What page is that?

Mr. LOCKHART: It is page 13, about the eighth item on the page.

Mr. COOPER: It is due to the fact—well, first of all, I should say this amount represents payments to the Canadian National by the American Railway Express Agency. Their payments to us are based on the profit from their operations, and the profit from their operations in 1946 was very much less than it was in 1945.

Mr. LOCKHART: They only pay you a proportion?

Mr. COOPER: Yes, sir.

Mr. VAUGHAN: We have exactly the same contract with the American Railway Express Agency as all the American railways have.

Mr. LOCKHART: That would account for the very large decrease?

Mr. VAUGHAN: Yes.

Mr. LOCKHART: If I might just satisfy my curiosity a little further, Mr. Chairman, in connection with the mail in 1947, is the revenue from the mail service holding its own as compared with the two years previous or is there a tendency to drop?

Mr. VAUGHAN: We will just give you our figures in a moment.

Mr. COOPER: In 1947, for the first quarter, our revenue from mail was $1,046,000, as against $1,048,000. There is a drop of $2,000 in the three months. It is running neck and neck.

Mr. LOCKHART: Do you expect any T.C.A. contracts or other contracts will materially affect the revenue of the railway from that source? Do you feel that a decrease is coming?

Mr. VAUGHAN: With the present contracts I do not think we will be affected to any greater extent than we are now, Mr. Lockhart, but we do not know what the post office may have in mind with regard to increasing the delivery of mail by air.

Mr. LOCKHART: I wanted to get your slant on this first. We will tackle them later.

Mr. VAUGHAN: We do not know what they are planning to do.

Mr. LOCKHART: You have no fears at the moment.

Mr. VAUGHAN: Not at the moment. Undoubtedly the more mail the Post Office Department decides to send by air, the less we will get from it.

Mr. REID: I have one question to ask and I do not know whether it properly comes under the heading of the general well-being of the railway or not. I suppose it does. I suppose the president's attention has been drawn to the great competition which the two railways in Canada are going to have since the Great Northern put on that fast train from Seattle to Chicago?

Mr. VAUGHAN: Yes, sir.

Mr. REID: I am told, I do not know, but I am told you get into Toronto from Vancouver one day ahead of the Canadian National by going through the United States via Chicago.

Mr. VAUGHAN: It is not quite a day, but it is very close to it. We have studied it very carefully. In fact, it is not very long ago that I had a report from our vice-president of traffic and our general passenger traffic manager on the subject. I raised that question, as to what effect the new train would have on our trans-continental business. They have gone into the matter very carefully. It is believed because of the inconveniences travellers may meet who take that train, due to the necessity of making changes, that it will not affect our service very much. It will not take very many passengers away from us.

Mr. REID: Before I left the coast during the Easter holiday, I discovered four men who had travelled across the continent on that train. Ninety-two miles an hour is the average speed. They stated it was luxurious travel. They believed if this were known in Canada by those who want to go to Toronto, Ottawa or Montreal, it would certainly take away the traffic from the Canadian National.

Mr. VAUGHAN: It may affect us. Some people have to change, as you know, at Chicago. They might have to change again at Toronto to go to Montreal or Ottawa, and there might be a few people who would be willing to make that change who wanted to stop off at Chicago for some reason, but we do not think there will be a great many. There will be some, there is no doubt of that.

Mr. REID: How many hours could you cut off your schedule if you were not held down by the Board of Transport Commissioners?

Mr. VAUGHAN: That would depend entirely on the number of stops we were permitted to eliminate. Our traffic, of course, is not as dense in Canada as it is in the United States. Between the large centres such as Seattle and Chicago, there are large cities intervening, but we could undoubtedly make better time if we did not make all the local stops which we do make. This would mean putting on a special train and there might not be sufficient business to warrant it.

Mr. REID: Are you held down by the Board of Transport Commissioners in regard to the speed you may travel? By the way, I have travelled 56 times across Canada between New Westminster and Ottawa so I have some idea of what the travelling is like. I have left here six hours behind time and been in on the dot at New Westminster. I have enquired as to why it takes 86 hours and I have been informed that, due to regulations of the Board of Transport Commissioners, the Canadian National Railways are not allowed to speed up and do it in less time, as they could.

Mr. VAUGHAN: I do not think it is fair to the Board of Transport Commissioners to say that, Mr. Reid. I think if there is any trouble along that line, it is with ourselves. It is because, as I say, of the departures and arrivals. You would not want to leave Ottawa any earlier than you do and you probably would not want to arrive in New Westminster any later than you do.

Mr. REID: Have you ever travelled on the slowest part of that journey from Chilliwack to the coast? The ordinary motor car will do it in about an hour, about half the time it takes you. Have you ever taken note of how slow it is. These people, when they have the option of travelling by bus or by air are not going to stay with the trains which take four days and three nights.

Mr. EMMERSON: Is there any extra charge for this fast train in the United States?

Mr. REID: So far as I know there is not. The Great Northern is out to beat the bus and air travel. They are putting on a train between Vancouver and Seattle which will make the journey in two hours. They have a very fast train and I think it is going to give you serious competition. I do not think you can sit down and allow that competition to go unchallenged.

Mr. MUTCH: I think we should hesitate to adopt the schedule of the United States railroads in view of the traffic fatalities record they have had in the last four months on these so-called crack trains. The percentage of casualties on those trains has been something out of this world in so far as railroading in North America is concerned.

Mr. REID: You could clip hours off the stops. There is no reason for stopping an hour at Winnipeg and forty-five minutes here and there. You have not travelled and sat in these coaches day after day the way I have.

Mr. MUTCH: I will not argue with you as to the number of times we have travelled that route.

Mr. VAUGHAN: We have made a start, we have cut two hours off these trans-continental trains.

Mr. JACKMAN: In connection with these box cars you are ordering now, have these that latest type of air brake equipment, the A. B. air brake equipment?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Are you converting the old cars to the new type of brake equipment?

Mr. VAUGHAN: Yes, as rapidly as we can.

Mr. JACKMAN: How rapidly is that?

Mr. WALTON: We had about 1,000 done last year. It is limited by our inability to get the equipment.

Mr. JACKMAN: Is there an order from the Transport Board ordering you to install this type of equipment on all cars?

Mr. VAUGHAN: There is an order from the I.C.C. that cars cannot be used for interstate traffic unless equipped with A.B. brakes as from a certain date. Do you remember Mr. Walton what that date is?

Mr. WALTON: It was up to the end of 1947, I think, but with devices of this kind it is frequently necessary to move the time limit as set when there has been a proper attempt to complete the cars and it has not been possible because of material shortages.

Mr. JACKMAN: Is the Canadian National as well equipped with the A.B. brake as a typical American class 1 roadbed?

Mr. VAUGHAN: Yes, we are. We are equipping as fast as we can.

Mr. JACKMAN: How do you find the special car service like the counterpart of the General American Transit service which handles refrigerator equipment and other special equipment for oils, chemicals and such things? How do you find the arrangement with them?

Mr. VAUGHAN: It is working out very satisfactorily.

Mr. JACKMAN: Do they supply all the oil tank cars?

Mr. VAUGHAN: They supply the oil tank cars which the companies do not own.

Mr. JACKMAN: Do they supply cars for chemicals, acids and things of that kind?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Why do those companies appear to have an easier time securing cars than the railroads do?

Mr. VAUGHAN: Take refrigerator cars, for example. We only need them at certain seasons of the year. At other times they might be idle. These other companies can use these cars practically all the year round. They lease them for part of the year to one concern for one business and another part of the year to another concern in another line of business. They seem to be able to get more general use out of them than we can. We did own a number of tank cars for quite some time. We believe in owning refrigerator cars and we are equipping ourselves as fast as we can to take care of our own refrigerator car requirements. We have to rent a large number each year, not because we believe in doing it, but because we have not been able to get refrigerator cars as fast as we would like, nor have we had the money to spend on them. They are expensive. They are not always useful the year round.

We did have a number of tank cars. After going into the matter thoroughly, we figured we could save money by being out of that tank car business. I am referring to tank cars for general chemicals and things of that kind.

Mr. JACKMAN: Has there been any further thought given to the electrification of the road between Toronto and Montreal or any other portion of the road with an equal density of traffic?

Mr. VAUGHAN: We have not given any thought to it recently, no. We thought we would wait to see if the St. Lawrence development came along and see if there were some cheap power available.

Mr. JACKMAN: By how much does the traffic have to increase in density before it is practical?

Mr. VAUGHAN: I could not give you that figure offhand, but with power sufficiently cheap it might be well worth considering electrifying the line between Toronto and Montreal. It would have to be a lot cheaper than it is to-day.

Mr. JACKMAN: How cheap do you want it?

Mr. VAUGHAN: I have not seen a report on that for a long time. We did have a study made on it. We have a report some place in the office, but it is two or three years since I looked at it.

Mr. JACKMAN: Would you need to get power for $4 or $5 a horse power?

Mr. VAUGHAN: Yes, it would have to be something like that.

Mr. REID: May I compliment you on that new bedroom car you have. I had the privilege of travelling on that. It is one of the finest cars I have ever travelled in.

Mr. VAUGHAN: I am glad you like it.

Mr. WALTON: That is another instance where we should like to get some more of these cars into service, but have not been able to get them.

Mr. REID: I should like to make one suggestion and that is that you allow about four inches more in each bedroom.

Mr. VAUGHAN: You mean in the width or length?

Mr. REID: In the width.

Mr. VAUGHAN: You have reference to the room or the bed?

Mr. Reid: I think the bed is splendid, put the other way. I think that is a splendid way to have the bed for travelling long distances. I am thinking of the width of the room.

Mr. Vaughan: The idea is to get all the revenue we can out of these cars and fit all the rooms into the cars we can.

Mr. Reid: It seemed to me you had a lot of space in the parlour part of it. It is splendid and well laid out, but you might add a few inches to those rooms.

Mr. Vaughan: We will check over the measurements again.

Mr. Jackman: There is one very general question arising from a statement I think you made some years ago when results were a bit better, that so long as you had the volume of business the justification for the Canadian National existed, that is to say, the financial justification. Last year, when the volume was pretty high, we hope it will not drop very much lower, we nevertheless faced a deficit of $8,961,000. I presume it is due to increased costs in wages and materials as you point out in your report. But if your revenue decreases any more, you are going to be in a very perilous situation, are you not?

Mr. Vaughan: If revenues decrease and expenses remain where they are, we will be showing very substantial deficits, but that is not uncommon with other lines. Of course, that does not help the situation here. As you know, a good many lines in the United States last year lost money. Take the Pennsylvania, for example, for the first time in a hundred years, it lost money, for the same reason we are losing money. If you refer to page 7 of the report, I think that will pretty well tell you the answer. It is indicated on that chart.

Mr. Jackman: Yes, your total operating revenues last year were $400,000,000. What plans do you have in mind should those revenues drop to $350,000,000?

Mr. Vaughan: If the revenue drops to $350,000,000, all we can do is cut our service down to the bare minimum. We can only do it by the elimination of employees which we do not want to do unless absolutely necessary. So long as we are judged entirely upon the financial results we produce rather than upon the service we give, we have no alternative but to reduce our staffs when the revenue falls. As against that, as we pointed out on many occasions, our interest charges are entirely too high. If we could get some relief there, it would help us.

Mr. Jackman: We have had a pretty high volume of business all through the war, a volume which we could hardly have hoped for in 1939. It is entirely possible that we might drop to a figure of $350,000,000; it is not a tremendous drop.

Mr. Vaughan: It might be, sir. I made a statement, I think in answer to an enquiry from you two or three years ago, that we could live on a gross of $300,000,000, but conditions have changed so much since then that, with present expenses, we need a gross of $400,000,000 or more to pay our operating expenses and all our fixed charges.

Mr. Hazen: Could I ask another very general question? The motor bus companies, truck companies and steamship companies which are in competition with the railways, to some extent, at least I presume they are in competition with the railways?

Mr. Vaughan: Yes.

Mr. Hazen: Air transport is in competition with the railways. You have recently applied to the Board of Transport Commissioners for an increase in freight rates?

Mr. Vaughan: Yes.

Mr. Hazen: What I was wondering was this, have you ever thought or given any consideration to the idea that it might be advisable to have one

Board of Transport Commissioners, a single board, which would control rates not only on the railways, but on the trucks, aeroplanes, buses and so on?

Mr. VAUGHAN: Yes, sir, we think that would be a very desirable thing.

Mr. HAZEN: Has that been suggested?

Mr. VAUGHAN: It has been up on numerous occasions, but a good deal of this motor truck travel is intraprovincial and the provinces will not agree to give that authority to a central board of transport commissioners. That has been up on different occasions in the last two or three years, and it was up on several occasions before that, Mr. Hazen.

Mr. HAZEN: Has that not been in the formal report?

Mr. VAUGHAN: I do not know that it has been in any of our formal reports, but I know that those representations have been made; if not in writing, verbally.

Mr. JACKMAN: I presume it would be on your advice then that the present government formed the aeronautical board to take jurisdiction over aviation from the Board of Transport Commissioners?

Mr. VAUGHAN: The government never asks me for any advice.

Mr. NICHOLSON: A year ago I raised a question on this very large amount of l.c.l. freight being carried on passenger trains. There has been a decided slowing down on passenger train service on many of the lines operating out of Winnipeg in my area. For instance, one of your fast trains averages 24 miles an hour including stops, and in that particular area they sometimes stop as long as 20 minutes at a station unloading flour and heavy machinery. That applies to all trains, but I notice also with respect to your "flyer" that it travels at the rate of 24 miles an hour for the distance of 426 miles from Regina to Flin Flon. There is a lot of freight on both these lines and you have a good freight service, particularly out of Winnipeg. It is obvious that most of this delay is caused by handling this freight. I wonder if you would care to report to the committee on what steps have been taken with a view to moving this heavy freight traffic by freight trains rather than by passenger trains?

Mr. VAUGHAN: The reason it moves by passenger train is to give service competitive with trucks. These trains, however, run very fast between stops, although they may average only 24 miles an hour over all. I think it will be generally conceded that we are giving a very fair service on freight there. If you will look around at almost any of our division points, take Saskatoon for instance, you will find a lot of baggage cars there being loaded up with freight which goes on passenger trains. I do not know what you have in mind.

Mr. WALTON: I think it is the same point as Mr. Nicholson raised a year ago, the large amount of freight being handled by passenger train service, and that the situation is deteriorating instead of improving because of the freight being handled.

Mr. NICHOLSON: Yes.

Mr. WALTON: Following your remarks I took up the matter with our people and drew their attention to the undesirability of long delays on these passenger trains. According to what you say there apparently has been no improvement and I will certainly take the matter up again. I will point out the things you have mentioned, like flour and heavy machinery which really should have gone by straight freight.

Mr. NICHOLSON: My information is that the company does not get as much revenue out of freight that goes by l.c.l. as it would if it went straight freight.

Mr. VAUGHAN: Revenue does not enter into it. It is the matter of trying to give service on the freight. It may be that in some cases we go too far with it when we handle heavy commodities with resultant serious delays at stops.

Mr. Nicholson: What is the cost of shipping by express as compared with l.c.l.?

Mr. Walton: Express is a higher rate than l.c.l. freight.

Mr. Vaughan: I recall your having brought that matter up last year, Mr. Nicholson; and I know an investigation was made; and I recall that you brought to attention some specific instances of trains being held up because of the handling of heavy freight. We want to overcome that type of delay if we can. We will look into the matter again. That is just something which perhaps needs more supervision.

Mr. Nicholson: A speed of 23 or 24 miles an hour would not seem to be a very fast rate for one of your crack trains from Winnipeg to Calgary, for example, would it?

Mr. Vaughan: You mean that would be the overall speed taking into consideration all the stops?

Mr. Nicholson: Yes.

Mr. Vaughan: That train would probably have to run at a pretty high speed between stations.

Mr. Nicholson: Apparently they are working on a timetable which allows for very long stops at most stations.

Mr. Vaughan: That is right.

Mr. Nicholson: It seems to me that if you improve your schedule you would do a lot more business than you are doing at the moment; otherwise the buses will get more business.

Mr. Walton: Bus competition has been quite a question with us, and this improved l.c.l. freight service was put on with a view to holding the business againts the trucks.

Mr. Jackman: Has there been very much of an inroad on the l.c.l. shipments by the trucking companies? I have in mind particularly the trucks that collect l.c.l. shipments from the various shippers and deliver direct?

Mr. Vaughan: There has not been very much in the last year or two. We never in our history were handling so much l.c.l. traffic as at the present time. Our l.c.l. freight has showed a steady improvement.

Mr. Hatfield: Isn't that on account of the short supply of goods?

Mr. Vaughan: That is one reason. The other reason is that probably the truck rates more nearly approach the railway rates at the present time, because trucks have had to increase their rates.

Mr. Walton: Then, of course, the trucks can take what they like at their own figures. We have to take everything that is offered, including freight that takes up a lot of space and weighs very little.

Mr. Jackman: The trucks are not common carriers?

Mr. Vaughan: They are not common carriers.

Mr. Jackman: They are not required to take everything that is offered.

Mr. Vaughan: We as common carriers have to take everything that is offered, the trucks can pick and choose.

Mr. Walton: And the fact that the truckman can charge whatever rate he likes makes it very unfair competition.

Mr. Jackman: In the last paragraph on page 6 you pointed out that the various passenger rates are frozen at their pre-war levels. Have there been any increases since 1940 in our rates in Canada?

Mr. Vaughan: There have been no increases in freight rates at all. I think there were one or two adjustments in passenger rates; not in the rates, but connected with such things as excursions and week-end rates. I am sorry I

haven't got those here. There has been no adjustment in freight rates except downwards since 1920.

Mr. JACKMAN: And in the U.S.A. since 1939 there have been some increases in passenger rates?

Mr. VAUGHAN: There was an increase of about 6 or 7 per cent effective the first of July last, that has been stepped up to nearly 20 per cent effective the first of January this year.

Mr. JACKMAN: And the over-all increase is about 20 per cent on freight and passenger, they are both about the same?

Mr. VAUGHAN: Yes, sir; and recently I saw an order of the Interstate Commerce Commission increasing passenger rates—I am sorry I haven't got that at hand—that only came through very recently.

Mr. JACKMAN: And, is this increase in rates on the American lines reflected in your operations; you are not operating at a loss over there?

Mr. VAUGHAN: We are not operating at a loss on our American lines at the present time.

Mr. JACKMAN: Not on any of them?

Mr. VAUGHAN: These rates have helped us, and the increase in volume has helped us very considerably.

Mr. JACKMAN: Yes. Now, take the matter of grain; of course there is much less of it now going through Portland than there was before. I do not recall whether we had this question answered this morning, but the carry-over of grain at the lake head and in the west for 1947; do you expect a large carry-over?

Mr. VAUGHAN: I think we are trying to get you that. We have the figure to the end of the year, but not up to date. I think perhaps we will be able to get you that figure up to date.

Mr. JACKMAN: Why is there more grain in storage now than there was at this time last year?

Mr. VAUGHAN: When you speak of carry-over, what do you have in mind?

Mr. JACKMAN: Well, the carry-over—available for shipment over the line east.

Mr. VAUGHAN: You are speaking of western grain only?

Mr. JACKMAN: Yes, as compared to what you had last year.

Mr. VAUGHAN: And you want it up to the end of the crop year, not the calendar year. We will try to get that for you.

Mr. JACKMAN: What I want to find out is whether or not you can reasonably expect larger grain shipments from the west this year than you had last year?

Mr. VAUGHAN: Yes, we have that now. Last year at this time the movement was tapering off. We expect we will have 475 cars per day from now until the end of the crop year July 31.

Mr. JACKMAN: That figure of 475 cars that you expect to be able to move does not mean very much to me; that is as compared to how many cars in 1946, 250?

Mr. WALTON: Yes, I think it would be probably 250 up to the middle of May and not over 200 from the middle of May to July. It was a very light movement. The crop was really cleaned up at the end of the last crop year.

Mr. JACKMAN: These 475 cars per day will continue through how much of this year?

Mr. VAUGHAN: They will continue until the new crop begins to move; frankly, it will continue throughout the whole year.

Mr. HATFIELD: Do you have any advantage on the increased freight rates in the United States by being initial carriers, furnishing the freight, do you get any advantage from that?

Mr. VAUGHAN: No, sir; except that the initial carrier usually gets the benefit of a higher proportion of the rate. If it goes over two or three lines the initial carrier gets the greatest proportion of the rate on a mileage basis.

Mr. HATFIELD: I know, but do you get any greater proportion on account of the increase in rates than you had before the increase?

Mr. WALTON: No greater proportion.

Mr. VAUGHAN: Not a greater proportion; no, sir.

Mr. HATFIELD: It is a percentage increase?

Mr. WALTON: Yes.

Mr. JACKMAN: If rates remain about constant this year how will the competition by the lake boats from Fort William affect you?

Mr. VAUGHAN: There has been some increase in lake freight rates.

Mr. JACKMAN: But you are not competitive with them the way rates are now, I refer to the competition with lake shipping from Fort William?

Mr. VAUGHAN: Freight rates by lake are much lower than ours.

Mr. JACKMAN: And always will be.

Mr. VAUGHAN: And always will be, yes.

Mr. JACKMAN: On page 7, the net income result of $35,719,000 is equal to a return of 1·78 per cent on the total capitalization of the system; may I just ask what goes into capitalization; is that the funded debt to the public, or the government?

Mr. COOPER: That is set out on page 12, Mr. Jackman. The capitalization of our railway at the end of last year was $2,008,206,878; and interest return, $35,719,000 is 1·78 per cent on that total capitalization.

Mr. JACKMAN: That includes proprietors' equity?

Mr. COOPER: Yes, sir.

Mr. JACKMAN: That does not include the capital written off?

Mr. COOPER: There was no capital written off. What you means is—

Mr. JACKMAN: This includes the historic capital of the C.N.R. system?

Mr. COOPER: In 1937, if you remember, certain government loans were transferred into equity capital.

Mr. JACKMAN: Yes.

Mr. COOPER: $270,000,000; that is in the $2,008,000,000 we speak of.

Mr. JACKMAN: Everything complete?

Mr. COOPER: Everything is complete. That represents as far as I can figure it the total capital which is invested in the Canadian National at the end of 1946, $2,008,206,878.21.

Mr. JACKMAN: With no allowance for write-offs or anything?

Mr. COOPER: No. The amount we wrote off in 1937; if I may make that clear; the amounts we wrote off were for deficits and interest on deficits. Advances for capital were continued in the capitalization of the railway.

The CHAIRMAN: Gentlemen, have you covered with sufficient thoroughness the report presented by Mr. Vaughan so that we may now take up the balance sheet item by item? Are there any other questions about Mr. Vaughan's report?

Mr. NICHOLSON: I wonder if you have any information regarding the total cost of maintaining railway offices in other countries, and whether it is a profitable and necessary service to maintain such offices?

Mr. VAUGHAN: It is a very necessary service and we think it is a profitable service. It is very difficult actually to say what volume of traffic is originated by these offices, but we will be very glad to furnish you with a copy of our expenses in these places.

Mr. HAZEN: Relating to the relay system you have been experimenting with, has it reached the stage where it is practical?

Mr. VAUGHAN: It is still in the experimental stage. There is a long statement here in connection with it. It is something we have gone into with the Canadian Pacific communication department and it is still in the experimental stage.

Mr. HAZEN: How long have you been working on it?

Mr. VAUGHAN: Since early 1945.

Mr. HAZEN: Has it been an expensive undertaking?

Mr. VAUGHAN: Is the cost there, Mr. Cooper?

Mr. COOPER: To the end of February, 1947, the Montreal-Ottawa-Toronto section, we have spent $6,166. I do not see the figure here for the Hamilton-Toronto section. I would say that up to the present time we have spent about $6,000 on it.

Mr. HAZEN: Is there any system like this in operation any place?

Mr. VAUGHAN: I do not think there is in Canada. This is something new, but I think the experiment is being tried elsewhere too.

Mr. McLURE: Mr. Chairman, I move the adoption of Mr. Vaughan's report.

Mr. EMMERSON: I am pleased to second that motion.

The CHAIRMAN: Those in favour of the motion?

Carried.

Now we are in a position to go on with the balance sheet. It is nearly six o'clock. Do you think we had better adjourn at this stage and take up the balance sheet tomorrow?

(Discussion as to procedure continued off the record.)

The CHAIRMAN: I think we had better call it six o'clock and if it is agreeable to members of the committee we will meet to-morrow morning again at ten o'clock in room 497.

The committee adjourned at 5.50 o'clock p.m. to meet again to-morrow, April 30th, 1947, at 10 o'clock a.m.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, APRIL 30, 1947

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1946)

WITNESSES:

Mr. R. C. Vaughan, C.M.G., Chairman of Board of Directors and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;

Mr. N. J. MacMillan, General Counsel, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

MINUTES OF PROCEEDINGS

WEDNESDAY, 30th April, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.00 o'clock, a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Bourget, Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Hatfield, Hazen, Jackman, Kuhl, LaCroix, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Pouliot, Reid, Warren.

The Committee considered the Consolidated Balance Sheet of the 1946 Annual Report of the Canadian National Railways.

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways was called. He reviewed the balance sheet in detail and was questioned thereon.

Supplementary questions were put to Mr. R. C. Vaughan, President, Mr. N. B. Walton, Executive Vice-President and Mr. N. J. MacMillan, General Counsel, all of the Canadian National Railways.

The Committee adjourned at 12.30 p.m. o'clock to meet again this day at 4.00 p.m.

The Committee resumed at 4.00 p.m. The Chairman, Mr. Clark, presided.

Members present: Belzile, Bourget, Chevrier, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Harkness, Hatfield, Hazen, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Lapointe, Reid, Warren.

Consideration was resumed of the Consolidated Balance Sheet of the 1946 Annual Report of the Canadian National Railways.

Messrs. Vaughan, Cooper, Walton and MacMillan were recalled and further examined.

On Motion of Mr. Mutch,—

Resolved: That the Annual Report of the Canadian National Railways, 1946, be adopted.

It was agreed that the 1947 Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, would be considered at the next meeting.

The Committee adjourned at 5.30 o'clock, p.m., to meet again at 11.00 a.m. Thursday, 1st May, 1947.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 30, 1947.

The Standing Committee on Railways and Shipping met this day at 10 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, last night we had concluded Mr. Vaughan's statement and we are ready to start on page 10.

Mr. VAUGHAN: I may say that Mr. Walton has a statement to file which I think we asked for yesterday.

Mr. WALTON: This is a statement in connection with the grain situation. It is as follows:

CANADIAN NATIONAL RAILWAYS

Grain Situation

Country elevators on C.N.R.	
April 15, 1946	14,360,000 bus.
April 15, 1947	28,195,000 bus.
In farmers' hands tributary to our lines	
April 15, 1946	24,848,000 bus.*
April 15, 1947	47,465,000 bus.*
In store at lakehead	
April 15, 1946	51,685,000 bus.
April 15, 1947	39,550,000 bus.

* estimated.

April 30, 1947.

These necessarily are estimated figures.

Mr. HAZEN: I understood we were going to have figures in connection with the cost of that new telegraph service which we were discussing last evening.

Mr. VAUGHAN: We have a statement on that which Mr. Cooper will file.

Mr. COOPER: The cost of establishing the research laboratory was $39,257. The other costs were as follows:

C.N.R. Expense 1946		
Research		$11,291
Testing and Inspection		14,791
Total		$26,082
Labour	$24,606	
Supplies	1,476	
	$26,082	
Paid to Outside Parties	1944	1945
Milton Hersey	$22,208	$21,825
Can. Inspn. Co.	2,575	2,205
Total	$24,783	$24,050

Then Mr. Hazen asked for a statement showing the capitalization of our system as it was at the end of 1937 and at the end of 1946, and showing how much was represented by equity capital and how much was in the form of fixed

interest debt. I have a statement here which I will be glad to place on the record. This statement shows that in 1937 the capital invested in the Canadian National Railways was in round figures $1,955,000,000; in 1946 the corresponding figure is $2,008,000,000, that is an increase in the nine-year period of $52,866,000. That is an increase of less than $6,000,000 a year, and I think it is a very modest increase for a railway of our size which operates almost 24,000 miles of line, including all our other activities, and including Trans-Canada Air Lines.

In 1937 our interest debt was $1,280,000,000; in 1946 it was $1,232,000,000, a decrease of $48,000,000 in interest bearing debt. In the same period our equity capital increased from $676,000,000 to $776,000,000, an increase of $100,000,000. Our interest charges in 1937 were $50,633,000; in 1946 they were $44,681,000, a decrease of $5,952,000 per annum; in other words, in this nine-year period—

Mr. Hazen: Pardon me, you speak of 1947.

Mr. Cooper: 1946, I should have said.

Mr. Hazen: But you just referred to 1947, I think that should have been 1946.

Mr. Cooper: In each case it should have been at the end of 1946, you are right, Mr. Hazen.

Mr. Hazen: At the end of 1946?

Mr. Cooper: Yes. In other words, in this nine-year period the capital increased at the rate of $6,000,000 a year whereas our interest charges have been reduced at the rate of $6,000,000 per year.

Mr. Jackman: Could you continue it; I suppose that depends on Mr. Ilsley or Mr. Abbott.

Mr. Cooper: The detailed statement is filed for the record.

CANADIAN NATIONAL RAILWAYS

Capitalization of the System and Net Income Available for the Payment of Interest

—	1937	1938	1939	1940	1941
	$	$	$	$	$
CAPITALIZATION AT YEAR END					
Equity Capital:					
Capital Stock of Canadian National Ry. Co.	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00
Capital Stock of Canadian National Securities Trust	269,325,705.67	266,612,868.53	264,012,426.42	265,706,605.62	267,283,019.32
Capital Expenditures by Dominion of Canada on Canadian Government Railways	388,204,322.18	388,075,722.18	388,075,722.18	385,752,583.69	377,893,343.58
	657,530,027 85	672,688,590 71	670,088,148 60	669,459,189 31	663,176,362 90
Fixed Interest Debt:					
Held by Public	1,217,327,734.65	1,245,721,137.19	1,259,110,895.83	1,199,816,334.09	1,134,394,303.29
Dominion of Canada Loans	62,480,567.10	48,144,804.73	45,382,081.52	113,882,334.43	195,345,883.53
	1,279,808,301.75	1,293,865,941.92	1,304,492,977.35	1,313,698,668.52	1,329,740,186.42
Total Capitalization	1,955,338,329.60	1,966,554,532.63	1,974,581,125.95	1,983,157,857.83	1,992,916,549.72
Net Income Available for the Payment of Interest	8,287,228.00	*3,549,048.00*	10,635,023.00	33,474,443.00	54,361,316.00
Per Cent Return on Total Capitalization	·42	—	·54	1·70	2·73

—	1942	1943	1944	1945	1946
	$	$	$	$	$
CAPITALIZATION AT YEAR END					
Equity Capital:					
Capital Stock of Canadian National Ry. Co.	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00	18,000,000.00
Capital Stock of Canadian National Securities Trust	298,842,882.17	336,680,462.71	359,080,515.31	381,711,556.78	380,403,604.43
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,885,131.95	377,614,971.84	377,614,970.84	377,614,970.84	377,614,970.84
	694,728,014.12	732,295,434.55	754,695,486.15	777,326,527.62	776,018,575.27
Fixed Interest Debt:					
Held by Public	809,216,074.19	744,232,472.60	629,453,905.93	573,179,997.54	530,422,997.55
Dominion of Canada Loans	502,856,460 88	537,323,765 07	645,103,871 64	674,201,612 83	701,765,305 39
	1,312,072,535.07	1,281,556,237.67	1,274,557,777.57	1,247,381,610.37	1,232,188,302.94
Total Capitalization	2,006,800,549.19	2,013,851,672.22	2,029,253,263.72	2,024,708,137.99	2,008,206,878.21
Net Income Available for the Payment of Interest	74,045,460.00	85,302,456.00	71,096,564.00	71,084,272.00	35,719,526.00
Per Cent Return on Total Capitalization	3·69	4·24	3·50	3·51	1·78

There was another statement requested. Someone asked why if our telegraph business was greater, our revenue in 1946 was lower than it was in 1945. The explanation of that is the average revenue per message in 1946 was somewhat smaller than it was in 1945. In 1946 we averaged 52 cents per message as compared with 55 cents in 1945. In other words there was more economy shown in the writing of messages. I believe that the soldiers in 1945 wrote their messages freely and they were not fussy about counting the number of words; so that there was a reduction in the average number of words per message and that accounts for the fact that in 1946 we had less revenue although we did more business.

CANADIAN NATIONAL TELEGRAPHS

	Messages		Revenue	
	1946	1945	1946	1945
Revenue—domestic	5,670,000	6,104,000	$3,641,039	$3,878,393
—international	2,888,000	2,305,000	1,157,653	1,024,272
Cables	343,000	490,000	242,097	305,548
Press	1,013,000	782,000	113,116	89,753
Other	252,000	251,000	135,723	173,133
Railway service	2,063,000	1,884,000	....	....
	12,229,000	11,816,000	$5,289,628	$5,471,099
Average revenue per message			52c	55c

The decrease in total revenue was caused by a decrease in the average revenue per message from 55 cents to 52 cents.

Mr. NICHOLSON: Have you any statement regarding hotel operation?

Mr. COOPER: That is being prepared, Mr. Nicholson. You asked for the average occupancy back to 1937. We have to get that from the hotel management.

Mr. HAZEN: How about the deficit or surplus figures from 1937 to date which I asked for?

Mr. COOPER: I can give you those figures. I will call them off and they will get in the record, Mr. Hazen.

INCOME STATEMENT

Year	Deficit	Surplus
1937	$42,345,000	....
1938	54,314,000	....
1939	40,095,000	....
1940	16,965,000	....
1941	....	$ 4,015,000
1942	....	25,063,000
1943	....	35,639,000
1944	....	23,026,000
1945	....	24,756,000
1946	8,961,000	....

The CHAIRMAN: I think those are all the statements that were asked for with respect to which answers are ready.

Mr. NICHOLSON: There was the question about the cost of maintaining offices outside of Canada.

Mr. VAUGHAN: We are getting that.

Mr. COOPER: If you will turn to page 23 of the report you will see the number of offices outside of Canada. While we have the figures, I feel that it is going to take some time to get the data prepared in statement form.

Mr. VAUGHAN: I think Mr. Nicholson was only interested in the ones in Europe and in the East.

Mr. NICHOLSON: I was concerned—apparently there is quite a large cost in maintaining these offices and I wondered if it was a paying proposition to maintain them.

Mr. VAUGHAN: That is checked over regularly and carefully.

Mr. NICHOLSON: How much trouble would it be, or perhaps it appears some place in this report, to give us a statement of the cost of maintaining those offices outside Canada?

Mr. COOPER: We will try and get that information. It may take a little time.

Mr. JACKMAN: Do you have to cable Europe to dig up those costs?

Mr. COOPER: No.

Mr. JACKMAN: I was just wondering, if Mr. Nicholson wants the information and if it is going to be expensive to obtain because I understand the Saskatchewan government now has an agent general in Europe and people will wonder what good purpose is being served by him if you have to cable Europe.

Mr. COOPER: No, we have the costs of those offices, but it will take a little time to prepare a statement.

The CHAIRMAN: Gentlemen, would you like to have Mr. Cooper explain this statement, or do you wish to ask questions? What is your pleasure. I think perhaps he explained the balance sheet last year, so he had better resume along that line.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1946

ASSETS

INVESTMENTS:				
Road and Equipment Property	$1,987,950,289.98			
Improvements on Leased Property	2,092,069.76			
Miscellaneous Physical Property	62,598,083.38	$2,052,640,443.12		
Capital and Other Reserve Funds:				
System Securities at par	$ 471,500.00			
Other Assets at cost	3,692,933.20	4,164,433.20		
Deferred Maintenance Fund		33,000,000.00		
Investments in Affiliated Companies		43,463,493.16		
Other Investments:				
System Securities at par	$ 80,000.00			
Other Assets at cost	916,563.50	996,563.50	$2,134,264,932.98	
CURRENT ASSETS:				
Cash		$ 13,095,225.50		
Temporary Cash Investments		8,208,638.99		
Special Deposits		7,552,145.74		
Net Balances Receivable from Agents and Conductors		15,004,290.63		
Miscellaneous Accounts Receivable		8,628,666.58		
Dominion of Canada—Railway Deficit, 1946		8,961,570.49		
Material and Supplies		53,887,477.48		
Interest and Dividends Receivable		656,996.79		
Accrued Accounts Receivable		3,118,033.12		
Other Current Assets		162,850.31	119,275,895.63	
DEFERRED ASSETS:				
Working Fund Advances		$ 359,681.10		
Insurance Fund:				
System Securities at par	$ 4,734,802.38			
Other Assets at cost	7,599,966.58	12,334,768 96		
Pension Contract Fund		35,943,000.00		
Other Deferred Assets		2,771,910.19	51,409,360.25	

LIABILITIES

STOCKS:		
Capital Stocks of Subsidiary Companies held by Public	$	4,635,440.00
LONG TERM DEBT:		
Funded Debt Unmatured:		
Held by Public	$525,136,695.17	
Held in Special Funds	5,286,302.38	530,422,997.55
DOMINION OF CANADA (Accounts treated as assets in Public Accounts of Canada):		
Loans	$ 701,765,305.39	
Canadian Government Railways—Working Capital	16,771,980.54	718,537,285.93
CURRENT LIABILITIES:		
Traffic and Car-Service Balances—Credit	$ 8,938,477.50	
Audited Accounts and Wages Payable	16,543,035.69	
Miscellaneous Accounts Payable	6,018,149.62	
Interest Matured Unpaid	6,152,189.94	
Interest Payable to Dominion of Canada	19,261,876.25	
Unmatured Interest Accrued	6,097,254.28	
Accrued Accounts Payable	5,280,083.64	
Taxes Accrued	2,276,647.93	
Other Current Liabilities	3,010,739.68	73,578,454.53
DEFERRED LIABILITIES:		
Pension Contract Reserve	$ 35,943,000.00	
Other Deferred Liabilities	5,855,621.40	41,798,621.40
RESERVES AND UNADJUSTED CREDITS:		
Insurance Reserve	$ 12,334,768.96	
Accrued Depreciation—Canadian Lines—Equipment only	85,786,241.90	
Accrued Depreciation—U.S. Lines—Road and Equipment	24,013,924.23	
Accrued Amortization of Defence Projects	3,691,602.43	
Deferred Maintenance Reserve	33,000,000.00	
Other Reserves	946,924.10	
Other Unadjusted Credits	7,637,172.34	167,410,633.96
DOMINION OF CANADA—PROPRIETOR'S EQUITY—(See Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000.00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	380,403,604.43	

UNADJUSTED DEBITS:			
Prepayments	$ 77,117.65		
Discount on Funded Debt	5,164,916.57		
Other Unadjusted Debits	2,209,785.56	7,451,819.78	
		$2,312,402,008.64	

Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970.84	776,018,575.27
CONTINGENT LIABILITIES:		
Major contingent liabilities, as shown on statement attached.		
		$2,312,402,008.64

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1946, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1946, and that the relative Income Account for the year ended the 31st December, 1946, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1947.

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

Mr. COOPER: Running briefly over the balance sheet, the first item, investment in road and equipment, represents the recorded cost of the property investment of all the railways which were comprised in the Canadian National Railways system. Of the total amount, $525,000,000 represents rolling stock equipment and $1,426,000,000 represents road property, which is an average investment per mile of road operated of $84,714.

The second item, improvements on leased property, carries the improvements by the Canadian National Railways to properties of other railway companies operated by the Canadian National under long term lease, principally, the New London and Northern, $1,093,000; the Vogel property at Milwaukee, and the Mountain Park Coal and Luscar Spurs. Those are the three principal items.

Miscellaneous physical property, that includes Canadian National hotels, $38,932,000; subsidiary land companies, Rail and River Coal Company and such like activities, $16,406,000. Various grain elevators and warehouses represent $3,914,000. These accounts are properties owned by the railway but are not directly rail line property.

Capital and other reserve funds: this includes the proceeds of sale of mortgaged property, on deposit with trustees to meet mortgage requirements. All that amount is invested in Dominion of Canada securities or Canadian National securities guaranteed by the dominion.

Deferred maintenance fund, that is invested in Dominion of Canada securities and represents the amount set aside during the war with respect to deferred maintenance.

Investments in affiliated companies, they are set out in detail on page 20 of the printed report.

Mr. JACKMAN: Just in regard to the income from those companies, Mr. Cooper do you consolidate that in your income account? I think we had the question up once before.

Mr. COOPER: Yes, sir, it is taken in under the headings of interest income or divided income, details of which you get on page 4.

Mr. JACKMAN: No substantial amount would be represented by those affiliated companies which are not declaring any dividends or did not come into the C.N.R. account?

Mr. COOPER: Not any substantial figures, no. I can tell you what dividends we did receive from them if you are interested.

Mr. JACKMAN: If you have it there.

Mr. COOPER: The Belt Railway Company of Chicago, we did not get dividends. The Canadian Government Merchant Marine Limited, of course, that is just directors shares. The Central Vermont Transportation Company, a dividend of $2\frac{2}{5}$ per cent; the Chicago and Western Indiana Railroad Company was 6 per cent; the Detroit and Toledo Shore Line Railroad Company was 8 per cent; the Detroit Terminal Railroad Company did not pay a dividend, nor did the Northern Alberta Railways Company. The Ontario Car Ferry Company paid a dividend of 66 per cent; Public Markets Limited paid a dividend of 4 per cent. The Toronto Terminals Railway Company did not pay a dividend. It is not expected to, it is just a joint facility operation with the Canadian Pacific Railway. The Toledo Terminal Railway Company did not pay a dividend. Trans-Canada Air Lines paid a dividend of 3 per cent and the Vancouver Hotel Company—we received both rents and dividends from that company amounting to $210,000 in rent and $114,000 in dividends.

On the Northern Alberta Railway Company bonds we received 5 per cent interest; on the Toronto Terminals Railway lands we received 5 per cent interest.

There is really nothing on the advances in the way of return. We do not expect one. Other investment carried on the balance sheet at $996,563, represents the investment of the Montreal Warehouse Company in Dominion of Canada securities, $544,000, and our investments in hotels and commercial companies in various communities which were investments we made for business reasons. They are rather small.

Temporary cash investments $8,208,000. This represents an amount set aside for war projects which we expected might have to be written off after the war $3,509,000, and $4,700,000 taken out of deferred maintenance fund—you remember we took $6,000,000 out of that fund in 1946 but we had not converted the bonds into cash at the end of the year and $4,700,000 were held at December 31st and have since been sold for cash.

Mr. JACKMAN: $13,000,000 was drawn out from the deferred maintenance account?

Mr. COOPER: $6,000,000 out of the deferred maintenance, Mr. Jackman, the balance was out of the inventory reserve; $6,750,000 out of the inventory reserve and $6,000,000 out of the deferred maintenance reserve. Those bonds were all sold with the exception of $4,700,000 which have been sold since the turn of the year.

Mr. JACKMAN: Did you have an inventory reserve on your assets side last year?

Mr. COOPER: It was carried in capital funds at the end of 1945.

Mr. JACKMAN: What item is that? It is in this year's balance sheet?

Mr. COOPER: Yes.

Mr. JACKMAN: Last year we had an account on the assets side of the balance sheet called inventory reserve?

Mr. COOPER: It was carried in capital funds or temporary cash investments, I am not sure which.

Mr. JACKMAN: It is all right, it is gone now.

Mr. COOPER: It is gone. The special deposit account are deposits with trustees to pay funded debt which has matured but not yet been presented for payment, and deposits with the bank to pay interest due on funded debt.

Accrued accounts receivable represents transportation charges against the Dominion of Canada in the process of billing, $847,000; estimated accounts from other railways and joint facilities, $669,000; revenue freight in transit for payment to be handled at destination, $547,000; delayed inter-line passenger returns from other companies, $149,000; the amount due from the Hotel Vancouver for rent and surplus $349,000. That was due but had not been paid to us by the hotel company at the end of the year. It has been paid since.

The insurance fund represents the investment of our self-insurance reserve established to protect company property against fire risk which is mainly invested in Canadian National and Dominion of Canada securities.

Mr. NICHOLSON: Just before you leave the insurance item, I wonder if Mr. Cooper has the figure for a year ago?

Mr. COOPER: Yes, $12,455,000. There is a decrease of $91,000 during the year.

Mr. JACKMAN: Yet there is the Dominion of Canada railway deficit, $8,961,000. Does that mean you carry that as an asset, what do you do with a deficit under the ordinary system?

Mr. COOPER: Well, we collected that from the government. Parliament has voted, in the supplementary estimates, an amount of $8,961,000. That was paid to the railway and having received it we turned around and paid it back to the government as interest due on the government loans to the system.

Mr. JACKMAN: I think this is the first year you have had that condition, unfortunately. The government simply makes up the deficit under the 1938 revision.

Mr. COOPER: No, it was under a policy laid down in 1933. Mr. Rhodes was the finance minister at the time and he laid down a policy that the government should vote to the National any deficit of the system. Previous to that time the National railways had been required sometimes to issue bonds to the public to finance its deficits and that policy was condemned in the Duff report, if you remember. Following that report the government announced a policy that in future, that is commencing with the year 1932, parliament would vote to the railway shortage of income to meet the interest requirements of the railway.

Mr. JACKMAN: That is, you just carry this account over the year end and subsequently parliament reimburses the railway?

Mr. COOPER: That is so.

Mr. JACKMAN: That is the policy we need to adopt in West Indies steamships.

Mr. COOPER: West Indies steamships deficit go back to earlier years. It is not done with West Indies steamships.

Mr. JACKMAN: Mr. Rhodes' principle was not applied.

Mr. COOPER: No, it was not carried into steamships. Then there is the pension contract fund.

Mr. VAUGHAN: I would just like to mention there, we paid $23,221,000 to the government for interest and then we asked them for $8,961,000 of that amount back.

Mr. COOPER: The pension contract fund is next. That represents the investment of our reserve against pension contracts. The amount is invested in Dominion of Canada bonds. Other deferred assets, mainly land contracts receivable, deferred accounts receivable, and deposits with the Ontario Workmen's Compensation Board. Prepayments cover prepaid insurance and rents. Other unadjusted debits, that is not a very large item. I do not know whether you want to go into all this detail. Perhaps if I just touched on the more interesting accounts. On the liability side there is the pension contract reserve of $35,943,000. That represents amounts which we have built up since 1943 and is the actuarial value of all pension contracts outstanding at the end of 1946.

Mr. JACKMAN: Just on that rather odd looking item, government railway working capital $16,771,980.54. What does that account mean?

Mr. COOPER: Well it means this, Mr. Jackman. The Canadian government railways were entrusted to the Canadian National for management around 1922. At that time the Government railways owned, in the form of working capital, that amount. In bringing the Canadian government railways into our system we took over the working capital as assets of our system and we did that by an offset credit to the dominion for the amount of such working capital. They had cash, accounts receivable, and stores on hand and we took those over and made them part and parcel of the system working capital. To do that we had, of course, to set up entries on the opposite side of the ledger. It has not changed, and I cannot see how it can change. It just stays there and has stayed there for the last twenty years. It is not the working capital of the Canadian National system, it is the working capital which was in the Canadian government railways at the time they were entrusted to the Canadian National railways for management.

Mr. JACKMAN: You surely do not need to carry forward all the various accounts of the Canadian government railways when you took them over under the Canadian National system, do you? You must have consolidated it.

Mr. COOPER: Yes, absolutely, we consolidated it.

Mr. JACKMAN: With your own accounts?

Mr. COOPER: Yes.

Mr. JACKMAN: Well, why do you treat the working capital separately?

Mr. COOPER: We do not. We set the cash up in our cash account and we set the accounts receivable in our accounts receivable account.

Mr. JACKMAN: And on the liability side you had to have an offsetting entry?

Mr. COOPER: We had to have an offsetting entry and this is it.

Mr. JACKMAN: It seems too bad you could not merge it with proprietorship or something else. I do not think it is important, it is just rather peculiar.

Mr. COOPER: The point on that is, in public accounts it is carried as an active asset and anything which, in public accounts, is an active asset, we consider should be shown in our balance sheet as a liability so that if anyone wishes to combine the National accounts with those of the dominion there will be no duplication.

Mr. JACKMAN: It is really more because of the government than because of the railway.

Mr. COOPER: Yes, we would be glad to see it down in proprietor's equity account, or if any adjustment to our loans from the dominion is made, well, perhaps the railway might be willing to treat that as a loan with interest, I do not know.

Mr. JACKMAN: Yes, it is there particularly to earmark an active asset on the government's books.

Mr. COOPER: That is right.

Mr. JACKMAN: That is the chief reason for it being there.

Mr. COOPER: Yes, that is right. Under double entry bookkeeping you have no alternative, you must set up a corresponding contra account. I do not know if there are any other items on the balance sheet in which any members are interested. We have the details here.

The CHAIRMAN: Is that all right then?

Mr. JACKMAN: May I just ask on that last item under proprietor's equity account, capital expenditures by Dominion of Canada on Canadian government railways, that is the whole system again. That is not the same Canadian government railways that we were on under working capital?

Mr. COOPER: Yes, it is the same, Mr. Jackman. As I said, we took up in our system accounts the accounts of the C.G.R., that is, we consolidated them.

Mr. JACKMAN: The C.G.R.?

Mr. COOPER: The Canadian government railways. We call them the C.G.R.

Mr. JACKMAN: What is the C.G.R., the old Intercolonial?

Mr. COOPER: It consists of all the railways owned by the government with the exception of the Hudson's Bay road. It is the Intercolonial, the National Transcontinental and—

Mr. JACKMAN: The Canadian Northern?

Mr. COOPER: No.

Mr. JACKMAN: Everything but the Canadian Northern and the Grand Trunk Pacific.

Mr. COOPER: That is right, the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern. They are the three old companies, and then we had the Canadian government railways which are owned by the Crown and in our consolidation as a system in 1923 took in those four entities.

Mr. JACKMAN: The $377,000,000 refers to the capital expenditure by the government on the old government railways this year?

Mr. COOPER: We included the amount in property investment account on the asset side, this first item on the left hand side, and we set up a corresponding amount here as capital invested by the dominion in the Canadian Government Railways.

The CHAIRMAN: All right.

Mr. JACKMAN: I must say at first reading it gave one the impression that was the amount of money which had been advanced by the government for capital expenditure of the C.N.R. I can see now that you mention it how it works but I was thinking of the layman who looks at it that way.

Mr. COOPER: It is very specifically worded.

Mr. JACKMAN: Once you know what the Canadian government railways are, but I was not quite sure what they were and I do not suppose the public does either.

Mr. COOPER: They are the Crown-owned railways with the exception of the Hudson's Bay railway.

Mr. HAZEN: Would you explain the item "accrued amortization of defence projects; what does that mean?

Mr. COOPER: Well, during the war, Mr. Hazen, we were required to construct a number of facilities, sidings into war plants and that sort of thing, and we felt that maybe after the war was over those facilities would be of no use for ordinary commercial operations. We felt perhaps they would have to be taken up and therefore we made provision out of wartime revenue for the loss which we would suffer if and when those facilities were taken up.

The CHAIRMAN: If there are no more questions we will turn to page 12.

Mr. JACKMAN: May I just ask a question on the terminology of the expression "affiliated companies". You do not use the word subsidiary companies in the railway business?

Mr. COOPER: No, our use of the word subsidiary indicates a company that we control. An affiliated company is one in which we have an interest but which we do not control.

The CHAIRMAN: Page 12, Dominion of Canada proprietor's equity account, capitalization of Canadian National railways and operating expenses:

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st Dec., 1945	Transactions Year 1946	Balance at 31st Dec., 1946
Capital stock of Canadian National Railway Company	$ 18,000,000 00	$	$ 18,000,000 00
Capital stock of the Canadian National Railways Securities Trust:			
Initial stated value	$270,037,437 88	$	$270,037,437 88
Surplus earnings	112,502,061 64	......	112,502,061 64
Capital gains	19,105,651 38	......	19,105,651 38
Capital *Losses*	*19,933,594 12*	**1,307,952 35*	*21,241,546 47*
	$381,711,556 78	*$1,307,952 35*	$380,403,604 43
Capital Expenditures by Dominion of Canada on Canadian Government Railways	$377,614,970 84	$	$377,614,970 84
	$777,326,527 62	*$1,307,952 35*	$776,018,575 27

*Loss (applicable to period prior to 1940) on retirement of rolling stock equipment.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1946	Per Cent of Total
Equity Capital:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of the Canadian National Railways Securities Trust	380,403,604 43		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	$ 776,018,575 27	38.6
Fixed Interest Debt:			
Held by the public	$530,422,997 55		
Dominion of Canada—Loans	701,765,305 39	1,232,188,302 94	61.4
		$2,008,206,878 21	100.0

*Excluding shares of subsidiary companies held by public—$4,635,440.

OPERATING REVENUES

	1946	1945
Freight	$296,403,320 83	$313,013,450 06
Payments under Maritime Freight Rates Act (20%)	3,909,878 07	3,519,878 84
Passenger	50,128,223 16	65,199,923 28
Baggage	182,522 20	159,084 91
Sleeping Car	3,587,104 21	4,580,963 69
Parlour and Chair Car	284,444 29	271,537 54
Mail	4,275,981 70	4,204,835 42
Railway Express Agency	118,269 78	534,662 43
Express	19,461,209 16	18,674,783 58
Other Passenger-train	41,901 84	61,942 53
Milk	504,275 89	469,169 82
Switching	3,334,010 96	3,358,414 26
Water Transfers	242,268 32	183,272 66
Dining and Buffet	3,104,899 44	4,608,534 74
Restaurants	281,704 48	301,391 10
Station, Train and Boat Privileges	462,921 99	570,327 56
Parcel Room	118,919 06	150,749 63
Storage—Freight	140,305 04	116,214 52
Storage—Baggage	77,644 73	117,651 20
Demurrage	2,270,174 93	1,840,217 42
Telegraph Commissions (U.S.)	13,580 86	14,314 32
Telegraph—Commercial	7,340,019 34	7,540,499 50
Grain Elevator	205,476 07	513,618 04
Rents of Buildings and Other Property	868,635 14	898,493 41
Miscellaneous	2,524,982 72	2,165,022 58
Joint Facility—Credit	812,390 49	822,641 49
Joint Facility—*Debit*	*109,038 81*	*118,200 97*
	$400,586,025 89	$433,773,393 56

OPERATING EXPENSES

Maintenance of way and structures	1946	1945
Superintendence	$ 4,467,817 94	$ 3,944,226 92
Roadway Maintenance	8,761,886 50	8,705,847 73
Tunnels and Subways	51,215 45	35,459 50
Bridges, Trestles, and Culverts	2,859,062 67	2,715,192 03
Ties	6,168,103 68	7,599,421 14
Rails	2,825,137 53	3,183,715 56
Other Track Material	2,660,235 82	3,025,663 44
Ballast	1,721,467 58	1,803,873 16
Track Laying and Surfacing	18,381,101 75	18,150,434 30
Fences, Snowsheds, and Signs	648,759 21	660,415 74
Station and Office Buildings	2,801,982 31	2,956,783 30
Roadway Buildings	362,193 55	352,973 30
Water Stations	563,851 22	517,550 95
Fuel Stations	315,665 52	290,714 31
Shops and Enginehouses	2,023,021 72	2,210,765 77
Grain Elevators	43,447 21	49,693 94
Wharves and Docks	197,504 42	217,414 67
Telegraph and Telephone Lines	1,255,079 31	1,078,893 03
Telegraph—Commercial	1,475,967 63	1,389,630 12
Signals and Interlockers	1,219,980 43	1,137,962 58

OPERATING EXPENSES—*Continued*

	1946	1945
Power Plants	17,268 47	9,2,62 96
Power Transmission Systems	185,378 39	170,753 66
Miscellaneous Structures	2,490 45	3,193 01
Road Property—Depreciation—U.S. Lines	903,079 96	853,390 97
Road Property—Retirements	1,860,910 12	1,231,167 29
Deferred Maintenance	—	2,500,000 00
Roadway Machines	642,934 84	594,557 02
Dismantling Retired Road Property	248,973 14	81,071 66
Amortization of Defence Projects	2,147 41	2,284 68
Small Tools and Supplies	887,800 55	887,741 95
Removing Snow, Ice, and Sand	3,192,937 07	3,540,663 13
Public Improvements—Maintenance	656,394 58	369,035 18
Injuries to Persons	718,369 45	661,012 09
Insurance	28,329 53	28,140 76
Stationery and Printing	79,530 04	70,819 65
Other Expenses	41,343 70	63,059 99
Maintaining Joint Tracks, Yards, ect.—Debit	909,722 71	1,015,097 95
Maintaining Joint Track, Yards, etc.—*Credit*	*2,084,511 95*	*1,942,157 33*
Right of Way Expenses	59,905 78	75,431 46
Protective Services	—	70,004 62
	$ 67,156,485 69	$ 70,311,162 19

Maintenance of Equipment

	1946	1945
Superintendence	$ 1,782,438 48	$ 1,539,394 18
Shop Machinery	2,216,834 46	2,083,485 62
Power Plant Machinery	133,788 39	115,858 50
Machinery—Retirements	371,828 28	200,386 19
Machinery—Depreciation—U.S. Lines	66,352 14	65,986 47
Dismantling retired machinery	4,345 76	2,963 50
Steam Locomotives—Repairs	23,160,658 70	22,780,691 45
Other Locomotives—Repairs	386,951 98	379,394 25
Freight-train Cars—Repairs	19,060,111 97	16,879,507 30
Passenger-train Cars—Repairs	10,559,617 41	9,358,057 50
Floating Equipment—Repairs	483,483 83	361,454 04
Work Equipment—Repairs	2,239,503 28	2,187,604 46
Express Equipment—Repairs	226,514 32	207,157 24
Miscellaneous Equipment—Repairs	209,953 42	201,051 70
Miscellaneous Equipment—Retirements	11,154 35	1,798 53
Dismantling Retired Equipment	79,149 70	56,308 77
Equipment—Depreciation	17,701,420 95	16,974,015 87
Express Equipment—Depreciation	170,773 90	167,252 45
Injuries to Persons	527,141 28	579,957 56
Insurance	31,396 38	35,089 17
Stationery and Printing	63,278 45	60,202 15
Other Expenses	47,555 34	2,667 17
Joint Maintenance of Equipment—Debit	412,118 29	250,211 17
Joint Maintenance of Equipment—*Credit*	*213,041 34*	*205,885 87*
Deferred Maintenance—Equipment	*6,000,000 00*	2,500,000 00
	$ 73,733,329 72	$ 76,784,609 37

Traffic

	1946	1945
Superintendence	$ 2,394,625 68	$ 2,145,109 43
Outside Agencies	3,139,627 52	2,853,589 00
Advertising	729,962 98	341,215 04
Traffic Associations	124,634 02	121,328 18
Stationery and Printing	329,271 27	267,094 28
Other Expenses	....	225 00
Industrial Bureau	138,375 29	115,414 99
Colonization, Agriculture and Natural Resources	236,392 04	202,627 10
	$ 7,092,888 80	$ 6,046,603 02

OPERATING EXPENSES—*Continued*

	1946	1945
Transportation		
Superintendence	$ 4,105,576 51	$ 3,765,343 35
Dispatching Trains	2,313,357 02	2,271,473 15
Station Employees	27,621,315 08	25,073,729 27
Weighing, Inspection, and Demurrage Bureaus	130,763 83	101,453 06
Coal and Ore Wharves	78,885 12	15,236 45
Station Supplies and Expenses	1,806,146 24	1,830,272 84
Yardmasters and Yard Clerks	5,256,575 69	4,912,250 62
Yard Conductors and Brakemen	9,304,920 39	8,518,726 18
Yard Switch and Signal Tenders	907,568 58	854,640 08
Yard Enginemen	5,871,797 48	5,364,395 97
Yard Motormen	762,186 62	666,539 83
Yard Switching Fuel	6,457,988 44	6,661,625 37
Yard Switching Power Produced	16,216 95	16,203 75
Yard Switching Power Purchased	83,300 13	95,393 59
Water for Yard Locomotives	228,337 42	215,453 80
Lubricants for Yard Locomotives	91,655 52	79,906 67
Other Supplies for Yard Locomotives	64,643 58	58,692 35
Enginehouse Expenses—Yard	2,237,604 10	2,101,901 21
Yard Supplies and Expenses	207,415 36	202,198 84
Operating Joint Yards and Terminals—Debit	1,909,538 93	1,828,166 68
Operating Joint Yards and Terminals—*Credit*	*2,087,574 92*	*2,031,612 59*
Train Enginemen	16,035,536 72	15,501,769 73
Train Motormen	133,665 09	121,351 22
Train Fuel	32,185,554 37	35,698,139 57
Train Power Produced	5,309 93	7,038 71
Train Power Purchased	49,531 11	43,019 07
Water for Train Locomotives	1,415,603 09	1,363,258 83
Lubricants for Train Locomotives	595,205 92	582,271 77
Other Supplies for Train Locomotives	331,374 48	326,289 07
Carried Forward	$118,119,998 78	$116,245,128 44

Enginehouse Expenses—Train	$ 6,379,506 62	$ 6,031,058 67
Trainmen	18,710,228 33	17,902,623 65
Train Supplies and Expenses	11,445,162 14	11,108,584 78
Operating Sleeping Cars	2,150,487 70	2,157,966 96
Signal and Interlocker Operation	650,174 62	564,925 05
Crossing Protection	979,709 04	846,625 97
Drawbridge Operation	166,447 98	131,636 51
Telegraph and Telephone Operation	464,575 98	434,880 56
Telegraph—Commercial	5,798,271 25	5,418,338 96
Operating Floating Equipment	1,265,123 95	1,231,744 64
Express	11,117,190 76	9,905,469 86
Stationery and Printing	795,388 85	761,103 05
Other Expenses	1,505,911 48	1,307,751 13
Operating Joint Tracks and Facilities—Debit	1,102,710 56	880,785 07
Operating Joint Tracks and Facilities—*Credit*	*494,378 63*	*421,589 49*
Insurance	21,676 65	16,976 80
Clearing Wrecks	496,239 06	500,501 25
Damage to Property	99,436 65	78,515 34
Damage to Live Stock on Right-of-Way	76,434 34	77,005 86
Loss and Damage—Freight	2,318,846 70	2,050,234 82
Loss and Damage—Baggage	16,416 69	15,744 26
Injuries to Persons	2,168,016 61	1,873,160 28
	$185,353,576 61	$179,119,172 42

Miscellaneous		
Dining and Buffet Service	$ 4,193,154 21	$ 5,615,717 45
Restaurants	280,544 06	278,591 80
Grain Elevators	195,697 54	351,532 81
Other Miscellaneous Operations	40,280 84	36,767 03
	$ 4,709,676 65	$ 6,282,609 09

OPERATING EXPENSES—*Concluded*

	1946	1945
General		
Salaries and Expenses of General Officers	$ 539,613 28	$ 493,631 92
Salaries and Expenses of Clerks and Attendants	6,904,342 48	6,197,145 02
General Office Supplies and Expenses	354,481 91	308,283 54
Law Expenses	429,900 22	393,064 75
Relief Department Expenses	27,500 00	27,500 00
Pensions	10,446,942 09	8,864,923 03
Stationery and Printing	280,250 94	247,722 64
Valuation Expenses	15,075 89	15,987 70
Other Expenses	148,898 15	165,347 34
General Joint Facilities—Debit	55,756 14	47,948 29
General Joint Facilities—*Credit*	*11,999 78*	*11,661 84*
	$ 19,190,761 32	$ 16,749,892 39

Mr. EMMERSON: There is a question there, Mr. Chairman. There is an item in the operating revenue, water transfers. That is revenue obtained from merchandise and other freight and passengers?

Mr. COOPER: Yes, we operate certain transfers. The principal one is across Lake Michigan.

Mr. JACKMAN: It would not include the car ferry for Prince Edward Island, would it?

Mr. COOPER: No.

Hon. Mr. CHEVRIER: That would be in the other item, Mr. Jackman, the other half of the page.

Mr. EMMERSON: I might ask Mr. Walton this question. For instance, one travels from the maritimes to Shawinigan, let us say. He checks his baggage. He pays water transfer or ferry transfer in addition to his check for his baggage. How does that come about?

Mr. WALTON: You mean if he is coming from Prince Edward Island?

Mr. EMMERSON: We will say even from Moncton, any point in the maritimes, from my own dwelling. You travel by C.N.R. to Shawinigan. You have to take the ferry to make proper connections. You check your baggage. You pay for the transfer of that baggage by the ferry at Levis. I was rather surprised to learn that. My point is how does that come about?

Mr. COOPER: We do not operate the ferry at Levis.

Mr. EMMERSON: You operate the trains. Suppose I travel from Moncton to Montreal. I am able to check my baggage.

Mr. WALTON: It would not apply on the trip from Moncton to Montreal but it does on the ferry at Levis.

Mr. EMMERSON: If you are travelling you check your baggage. There are C.N.R. trains that cross the bridge, are there not?

Mr. WALTON: Yes, but it is built up on the principle of having the baggage follow the same route as the passenger so as to permit delivery of it on arrival. If we send the baggage around by a different route from that travelled by the passenger and the baggage is not available on his arrival it always results in complaints. That is why the Levis ferry and transfer is involved in this, and it is not our own operation.

Mr. EMMERSON: But is it possible for a person, who is not so anxious to have his baggage arrive on the same date, to have it travel around the other way? Has he the option of having it go a different way?

Mr. WALTON: I would have to check the tariff to be sure of that, but I think if he said, "Send this any route you wish", that the ferry charge would not apply. I can confirm that.

Mr. EMMERSON: That is the point I wanted to find out. It is only a very small item.

The CHAIRMAN: Operating revenues.

Mr. NICHOLSON: May I inquire if there is any way of knowing the position of sleeping cars, parlour cars and dining cars as to the relative revenue received from those sources compared with freight. Do you keep track of your operating expenses in connection with hauling your parlour cars?

Mr. WALTON: They are not separated in our expenses.

Mr. NICHOLSON: Do they pay for themselves as compared with your first class car, for example?

Mr. WALTON: The cost of hauling a parlour car is approximately the same as an ordinary car except for the porter's wages.

Mr. NICHOLSON: What is your initial investment in the two cars?

Mr. WALTON: It would be slightly more in the case of a parlour car, not materially different.

Mr. NICHOLSON: How many passengers do you carry in a parlour car, and how many in one of your new first class cars?

Mr. WALTON: A parlour car would probably average thirty, whereas the modern coach average would be sixty-four.

Mr. NICHOLSON: It would seem to me that chair car rates should be a little higher if they are not to be operated at a loss. What do you pay for a chair from here to Montreal, for example?

Mr. WALTON: Seventy-five cents.

Mr. NICHOLSON: It would not appear to me to be a profitable enterprise to have such a large investment in chair cars.

Mr. WALTON: In many cases the operation of a parlour car itself is not profitable, but it is one of those things that is more or less demanded by the public, and provides something over and above what the bus gives the passenger.

Mr. NICHOLSON: I think those who demand luxury travel should be prepared to pay a fair share of the cost.

Mr. WALTON: The experience has been they will not pay it. They will use something else. There is a dividing line. Maybe we have not hit it right, but if you charge too much they will not patronize the parlour cars and they will complain that the coach accommodation possibly is not as good as it should be.

Mr. NICHOLSON: Revenue of $22.50 for hauling a chair car from here to Montreal does not appear to be very much.

Mr. WALTON: On the train which runs anyway the additional cost of hauling one car is not very great.

Mr. NICHOLSON: Your first class accommodation in the new cars is really very comfortable.

Mr. WALTON: Very good.

Mr. NICHOLSON: I think when you are operating in the red you are hardly justified in asking the taxpayers to subsidize this type of luxury travel.

Mr. WALTON: It is a case of public demand as far as we are concerned. If we could be satisfied we would get the patronage without having parlour cars on the trains, we would be quite satisfied to take them off and convert them into coach use or something of that kind.

Mr. EMMERSON: I do not think that is always luxury travel. Take the case of an elderly woman or a woman travelling with children. It is almost a necessity in some cases for the mothers.

Mr. NICHOLSON: In my experience very few women with children travel that way. They are mostly in the ordinary cars.

Mr. VAUGHAN: You recall, Mr. Nicholson, that during the war the operation of parlor cars between Toronto and Montreal was discontinued, but there was always a tremendous demand even during the period when they were not operated to have them restored.

Mr. NICHOLSON: I can appreciate that when you can get a chair from here to Montreal for 75 cents. It is more comfortable. You are not so crowded. I think those who demand that service should be prepared to pay what it is worth.

Mr. WALTON: It was pointed out to us yesterday what the Great Northern was doing in stepping up their service, providing good equipment, and so on. In some cases we have not gone as far as we would like to go in providing equipment attractive to the passengers and which will retain travel for the trains.

Mr. NICHOLSON: I think on most American lines you have additional fares for the privilege of travelling in that fashion.

Mr. WALTON: On some trains, not on the majority of them.

Mr. VAUGHAN: On many of those trains in the United States there is a charge made for a seat in the coach.

Mr. NICHOLSON: Yes, but they have a better coach than we have.

Mr. VAUGHAN: Not necessarily.

Mr. HAZEN: Why was there such a falling off in the amount of revenue received from grain elevators?

Mr. VAUGHAN: There was less grain to be moved last year on account of the crop having been shipped out earlier than usual.

Mr. COOPER: I have here the number of bushels handled, the revenue from which enters into that account. In 1946 at Saint John we handled 1,591,000 bushels against 2,995,000 bushels in 1945. At Portland, we handled, in 1946, 8,177,000 bushels as against 32,044,000 in 1945. At Tiffin we handled 20,091,000 bushels in 1946 as compared with 54,274,000 bushels in 1945.

Mr. JACKMAN: Where is Tiffin?

Mr. WALTON: Near Midland, Ontario.

Mr. HAZEN: Would the C.P.R. and other elevators be down as much as yours?

Mr. COOPER: I would not say that.

Mr. WALTON: I think they are pretty well comparable. It had reference to the relative crops.

Mr. NICHOLSON: In connection with this first item of freight have you any way of breaking that revenue down according to districts?

Mr. COOPER: No, sir. We can break it down by regions.

Mr. NICHOLSON: Can you break down your operating expenses by regions as well?

Mr. COOPER: We can break down some of the expenses, but we do not attempt to break down, for example, our headquarters expenses. Properly a portion of our headquarters expenses is applicable to the western region, central region, Grand Trunk Western, and so on. We do not attempt to do that. It is the same thing with maintenance of freight cars. Our cars run from seaboard on the east to the seaboard on the west. A car may go into a shop here or there, and it would not be informative if we were to say the expense of repairing cars in Montreal should be charged to the central region and that cars repaired at Winnipeg or Stratford should be charged to those particular places. That expense has to be spread throughout the entire system. We do not do that

for our ordinary purposes. It would be a waste of time and effort. It can be done on arbitrary pro-rates. For example, take freight car repairs. We could take the car mileage made on a region and charge that region its car mileage proportion of the system car repair costs. That can be done if we are making a particular study for a particular purpose, but we do not do it for ordinary purposes.

Mr. NICHOLSON: In deciding where your new stations are going to be built would there not be some value in knowing whether the eastern, western or central regions are more profitable? Would it not be in the more profitable regions where you get your greatest net profit that you might have greater expansion?

Mr. COOPER: I think our people know from their knowledge and experience just as well as if the accounting department was to produce some figures, particularly if those figures were to be built up from a formula. When you begin to get averages on a system of 24,000 miles they are not particularly useful in applying them to a particular situation. It is the divisional officer's knowledge of a local situation rather than some statistical information produced by the accounting department in Montreal which would guide the officer in determining what he should do to deal with a local situation.

Mr. McLURE: You would have to keep a separate freight account for your water travel and ferries, for instance the one from Borden to Tormentine?

Mr. COOPER: Yes.

Mr. McLURE: You would have a breakdown of all of that?

Mr. COOPER: You are speaking of revenues, yes.

Mr. McLURE: Yes.

Mr. COOPER: We do that because if you remember the revenues and expenses of that particular operation are covered by special appropriation of parliament.

Mr. McLURE: Yes, and any deficit is met from the consolidated revenue fund?

Mr. COOPER: Yes, sir.

Mr. McLURE: It should not appear as a deficit of the railways.

Mr. COOPER: It does not.

Mr. McLURE: While we are on that, where did the Canadian National Railways get the authority for the rates they charge on the ferry? To whom do they look for authority?

Hon. Mr. CHEVRIER: Perhaps I can answer that. It is given to the Canadian National Railways by virtue of a trusting order. The ferries are owned by the government of Canada and their operation is entrusted to the Canadian National Railways.

Mr. McLURE: Then the mandate comes from the government of Canada, or the Minister of Transport?

Hon. Mr. CHEVRIER: Not from the minister, no. The minister is not the owner of the ferry, but the government of Canada; title is in the name of His Majesty.

Mr. McLURE: He is the trustee?

Hon. Mr. CHEVRIER: No, the Canadian National Railways are the trustees of it.

Mr. McLURE: That comes to the question that we have always had trouble over, freight rates. On the freight rates on that ferry your board of control or whatever you call it, your transport board, have no authority to set rates for the Canadian National. By what system are those rates set?

Hon. Mr. CHEVRIER: Perhaps I can answer that. The Board of Transport Commissioners; in fact the chairman went down there some time ago, and when they considered the matter they stated that while they had some doubt as to whether or not they had the authority to set freight rates they did proceed to take upon themselves authority and reduce one such rate.

Mr. McLURE: Yes.

Hon. Mr. CHEVRIER: The question as to whether or not they have the legal authority is one which I would not like to give an opinion on because there is some doubt.

Mr. McLURE: Well, of course according to the terms of confederation they had no legal authority, they cannot set the freight rate on any water-borne traffic operating between any of the provinces or between any of the provinces and a British-owned territory. For instance, they cannot set a freight rate from Charlottetown to St. John's, Newfoundland. That must be set by private concerns. They have no jurisdiction over these freight rates and my claim has always been to you that they have no right to set a freight rate on trucks on Canadian National ferries operated by the Canadian National.

Hon. Mr. CHEVRIER: Freight rates are governed by the Railway Act. They are set up under the Railway Act, and the Board of Transport Commissioners have already exercised jurisdiction.

Mr. McLURE: And that notwithstanding the fact that their legal counsel down there, Mr. Dysart, stated when he was giving evidence that they did not have jurisdiction.

Hon. Mr. CHEVRIER: Well, I am not going to enter into a discussion of the legal aspect. All I can tell you is the position which my officers advise me is the correct one; namely as government-owned vessels they have been entrusted for operation to the Canadian National Railways and the Board of Transport Commissioners maintain that they have doubt whether they have jurisdiction in the matter of fixing rates but notwithstanding that doubt they have fixed them. That is the position.

Mr. McLURE: When we had automobiles first; you see, up to 1919 automobiles were prohibited in our province by law; but after that when automobiles got running across on the ferry there was a rate set to take them over and that rate was set by the government at $7 for a return trip for automobiles.

Hon. Mr. CHEVRIER: You are now referring to the Wood-Cariboo ferry?

Mr. McLURE: No, no; to Borden-Tormentine. After 1922—

Hon. Mr. CHEVRIER: I am aware of that.

Mr. McLURE: We took objection to that rate which the government had set in 1922 and in 1931 we appealed to the Minister of Transport—he was then the Minister of Railways and Canals—and he had it reduced to $3. That was not done by any Board of Transport Commissioners.

Hon. Mr. CHEVRIER: That is a different thing. You are referring now to the rate on trucks?

Mr. McLURE: Yes.

Hon. Mr. CHEVRIER: Let us get back to this question of freight rates.

Mr. McLURE: That is what I am leading up to.

Hon. Mr. CHEVRIER: Those are two different things.

Mr. McLURE: No, the same thing. Now, with respect to the load on the truck, trailer or whatever it was—to-day on the Wood-Cariboo ferry there is no account taken of the load, only of the truck itself. They charge for the truck. If there is a 5-ton load on it of first-class freight they do not make any charge for the load. On what authority are you people making a charge on the other ferry at Borden?

Hon. Mr. CHEVRIER: You know why that is, of course; that is because there is a subsidy of $100,000 paid there by the government.

Mr. MCLURE: I know, we are paying the Canadian National this year a subsidy of $880,000, isn't it?

Hon. Mr. CHEVRIER: I put it the other way, that the government is paying a subsidy of $880,000 to the Canadian National Railways for their deficit in the operation of the car ferry, so that one outweighs the other. In other words, it might be said that we have subsidized the Wood-Cariboo ferry to a position where its rates for a truck are lower than those on the car ferry.

Mr. MCLURE: Undoubtedly the same thing must occur on both ferries. You are subsidizing both in the same way but in the case of the one you call it a deficit and in the case of the other you use the term subsidy. While the terms are different, there is no difference in fact; but why should our people be penalized for carrying freight over the Borden-Tormentine ferry?

Hon. Mr. CHEVRIER: Well, now—

Mr. MCLURE: Pardon me, I don't want to argue this.

Hon. Mr. CHEVRIER: You are referring to freight again?

Mr. MCLURE: Well, it is the same thing whether it is freight or—

Hon. Mr. CHEVRIER: If you are referring to freight I would say it is a matter for the Board of Transport Commissioners.

Mr. MCLURE: Well, they had not been taking any part in it up until about six months ago. Someone must have set the freight rates prior to that time. If it was the Canadian National Railways then I think they had no right to put on these exhorbitant freight rates.

Hon. Mr. CHEVRIER: I presume the freight rates they put into effect were approved of, were filed as tariffs with the Board of Transport Commissioners.

Mr. VAUGHAN: I think the ferry is different. The ferry is operated as a part of the railway, it is really part of the railway because it bridges the journey between the island and the mainland. All this leads up, I suppose, that you want reduced rates on your trucks and other things on the ferry.

Mr. MCLURE: They are tremendous to-day.

Mr. VAUGHAN: I would say in connection with that that is a matter which is receiving very careful consideration from the railway officers at the present time and I think perhaps before long we may be able to say something to you on it. Perhaps we cannot satisfy you entirely but we hope we will be able to give you something which will please you.

Mr. MCLURE: Well, as a matter of fact, from statements which Mr. Vaughan made himself we were afraid to look to him for any relief because, when asked the question in one of these committees, was the freight rate too high, he replied that he did not consider them too high and he thought that the people of Prince Edward Island ought to be well-satisfied that they were allowed to bring a truck over at all because it was in direct competition with the railway.

Mr. VAUGHAN: I would say that I recall having said that, but at the same time we are giving this matter very serious consideration.

Mr. MCLURE: If it will make it any easier for you, I will make this statement; that in 1926 on a similar occasion the then president of the railways, the late Sir Henry Thornton, made a similar statement, and he said that the Canadian National Railways were not interested in the terms of Confederation regarding the operation of the ferry, they were only interested in the Canadian National Railways. However, after that he became one of our very best friends and gave us a very fine hotel down there.

Hon. Mr. CHEVRIER: The railway is still your friend.

Mr. McLure: I am reminding you of this; what you said was detrimental to us down there, and I hope that now you have studied this problem we will have a real rate. Of course, if we got justice as a province we should not pay any freight for coming over on that ferry to any government. I do not say that the Canadian National Railways should carry it free, but let the consolidated revenue fund of Canada pay it as they agreed to pay it.

Hon. Mr. Chevrier: Now, Colonel McLure, I don't want to interrupt you, and I do not want to delay proceedings, but I wish some day you would show me the authority for that because I am extremely interested in knowing under what authority you make such a statement.

Mr. McLure: What statement?

Hon. Mr. Chevrier: The statement that it was understood at Confederation that you were to have free movement on that car ferry.

Mr. McLure: Sure.

Hon. Mr. Chevrier: I wish you would show me that in the statute. I have asked to have it shown to me on more than one occasion.

Mr. McLure: I think I put in on record three times since 1945.

Hon. Mr. Chevrier: In discussing the estimates you have made statements?

Mr. McLure: Yes, and I refer to the man who started it up.

Hon. Mr. Chevrier: Who was that?

Mr. McLure: I refer to the Hon. Mr. Dunning. That was his idea; when inaugurating the ferry service at Wood-Cariboo, he stated that freight must be carried free because it is in the bond of agreement. Those were his words.

Hon. Mr. Chevrier: I would like to see that bond of agreement. When I was down in Prince Edward Island I was told exactly what you say and I believe that is the feeling they have down there; but I would like to see the agreement in the statute or in the imperial order in council. If you have it I wish you would show it to me.

Mr. McLure: I think I have it and can give it to you because we base our argument on that.

Hon. Mr. Chevrier: I am not arguing with you that the rates are not high. I am simply asking for the authority.

Mr. McLure: Yes, they are prohibitive. I will get you the authority. I thought we had settled that point.

Mr. Vaughan: I would suggest, Colonel McLure, if I may, that you leave that with us another week or two until we can see what can be done.

Mr. McLure: As I said before, you are facing this charge laid against you for not taking any interest in what we are doing on the Island.

Mr. Vaughan: We are all greatly interested in the Island, I can tell you that.

Hon. Mr. Chevrier: And we are going to give you a nice, new ferry down there.

Mr. McLure: Yes.

Mr. Maybank: I hope you will not use that as an argument for charging an additional 30 per cent on their freight rates down there.

Mr. McLure: Speaking about this new ferry down there, I think the Canadian National Railways should be very kind with reference to freight rates because we are handing over to them a fine, new boat, a boat and docks which they do not maintain. They do not even charter them, and they do not own them. It is a wonderful proposition if it is turned over to them. We will look forward, Mr. Vaughan, to proper consideration with respect to freight charges.

Mr. VAUGHAN: We are giving it our consideration now, Mr. McLure. I was just going to point out that there is no revenue from that ferry which comes to the Canadian National Railways, and the expenses are taken out of our accounts, the operating expenses do not come out of our funds at all.

Mr. HATFIELD: What account does it come out of?

Hon. Mr. CHEVRIER: We all have a soft spot in our hearts for the Island.

Mr. VAUGHAN: The loss is naturally offset by the subsidies; that is to say the dominion government reimburses us for any loss there may be on the operation of the ferry.

Mr. McLURE: You would have to have the revenue freight last year. Now, there were 177,000 passengers passed over that ferry.

Mr. VAUGHAN: That accrued to the ferry and the expenses are charged to the ferry, but, in the final analysis the government pays the loss, whatever it may be.

Mr. McLURE: You pay out, first, the charges for repairs on the ferry and then charge it back?

Mr. HATFIELD: Does not the ferry come into your operating revenue?

Mr. VAUGHAN: It comes in and out.

Mr. JACKMAN: You are just the agent for the government.

Mr. NICHOLSON: In connection with the removal of snow, ice and sand, an amount of $3,000,000. Have you the comparable figure for 1947?

Mr. WALTON: I have some figures here which may be of interest to you. For the three months, January, February and March of this year the expense for removing snow was $4,200,000 as against $2,336,000 in the same three months of last year. It is very close to double.

Mr. NICHOLSON: Is this the highest amount you have ever had for those three months?

Mr. WALTON: Yes.

Mr. EMMERSON: It is a good thing the Maritimes did not add to it.

Mr. WALTON: Yes, it is.

Mr. NICHOLSON: If you did not keep your accounts separated how did you arrive at the amount the snow removal cost?

Mr. WALTON: It is kept under a definite account number. I think Mr. Cooper has a breakdown of that here. There is a note on page 13, about eight lines from the bottom.

Mr. NICHOLSON: But how do you arrive at the amount of $4,000,000 for the first three months if you do not keep the accounts separated?

Mr. WALTON: The wages and other expenses which go into the removing of snow go into that account and those expenses are kept separately.

Mr. NICHOLSON: Do you charge rental for engines or equipment which you use in this operation?

Mr. WALTON: No, the wages and supplies, the general cost of running the trains and the wages of the gangs which are shovelling snow, but not the rental of equipment. We do not charge that rental against ourselves.

Mr. JACKMAN: It is just a direct charge?

Mr. WALTON: Just a direct charge.

Mr. JACKMAN: In the item for dining and buffet car receipts, for 1946 it is shown as $3,104,000 as against $4,608,000 in 1945. Is that because of the disappearance of so much troop travel?

Mr. WALTON: Yes, that is the main reason.

Mr. JACKMAN: Just looking down at the operating expenses for that same item, how much was that? You lost money on your dining car and buffet service?

Mr. WALTON: Yes.

Mr. JACKMAN: How much?

Mr. WALTON: On page 15, under miscellaneous, the first item, dining and buffet service, the expenses are shown there.

Mr. JACKMAN: The expenses were $4,193,000 against an income of $3,104,000, so you lost $1,000,000 on that service?

Mr. WALTON: Yes.

Mr. JACKMAN: Was that because of the Wartime Prices and Trade Board regulations or because the passengers would not stand for a higher rate?

Mr. VAUGHAN: We have always lost money in the operation of dining car service. One of the reasons for this large loss was that prices were controlled. Prices were controlled, and, of course, if you charge too much for dining car service the people will not use it. It is a service provided by the railways for which we are not fully compensated.

Mr. WALTON: The experience in regard to a loss on that branch of the service is common to all railways.

Mr. JACKMAN: Have you raised the prices recently?

Mr. WALTON: Yes, there has been a slight increase.

Mr. JACKMAN: You have certainly cut down on the variety and quality during the latter war years.

Mr. WALTON: Would you say that is the case now?

Mr. JACKMAN: I do not know that it is quite so bad now, but you could not get the good meals to which you were accustomed in the train service.

Mr. MUTCH: You could not get them anywhere.

Mr. NICHOLSON: I understood you to say you always lost money in the operation of the dining car service?

Mr. WALTON: Yes.

Mr. NICHOLSON: Would that not also be the case in connection with chair cars, yet you are asking for an increase in freight returns. You are asking the freight shippers to pay for the losses in these luxury services.

Mr. WALTON: The way to stop the loss would be to take the dining cars off these trains. Would that be a satisfactory move or would it not? We do not think it would.

Hon. Mr. CHEVRIER: You would certainly have a great howl if you did that.

Mr. JACKMAN: It is this extra tax which you pay when passing through Saskatchewan which bears so heavily on the passengers.

Mr. NICHOLSON: That is not on now, you have not been travelling or you would know. Those who want to use the dining car service should be prepared to pay for that service. There is always a fuss about taking a million dollars out of the consolidated revenue fund.

Mr. VAUGHAN: If you applied that rule all the way through, don't you think the people shipping freight via Canadian National should give us enough to pay our expenses?

Mr. NICHOLSON: But not for the other branches of your service. I do not think the freight shippers should be asked to pay for the losses on your luxury service.

Mr. Vaughan: The railway is running in the red because we are not getting an adequate payment for the services we are performing.

Mr. Walton: In practice, what would happen if we took the dining cars off is the passengers would patronize those railways who had dining cars.

Mr. Nicholson: But, if you raised your charges by 10 per cent?

Mr. Walton: No, 10 per cent would not do it. If we raised the charges enough to show a profit on this operation, nobody would buy meals in the dining car. The meals would have to go up by 30, 40 or 50 per cent.

Mr. Jackman: Do you break even on your restaurant service?

Mr. Walton: Yes, we break even on those. They are operated, all except the one in Montreal, by the Canada Railway News Service.

Mr. McCulloch: You make very little on your elevators?

Mr. Walton: Yes, there are only three elevators, one at Portland, one at Saint John and one at Tiffin.

Mr. Hazen: There is an item under maintenance of way and structures headed, "Injuries to persons," and there is also an item under maintenance of equipment headed, "Injuries to persons, $927,000." Now, "Injuries to Persons", does that include injury to property as well?

Mr. Cooper: No.

Mr. Hazen: What does it include? Does it cover passengers or what?

Mr. Cooper: The item under maintenance of way and structures is one covering injuries to employees in the Maintenance of Way Department. The item under maintenance of equipment, again, is the mechanical and maintenance of equipment people. The injuries to the public you will find on page 15, the last item under the heading of "Transportation", "Injuries to persons". In this account there is the expense for injuries to passengers, but it would also include—

Mr. Hazen: Does that include injury to property as well?

Mr. Cooper: No, sir, you have up above two or three casualty accounts. You have items for clearing wrecks, damage to property, damage to livestock on the right of way, and loss and damage to freight, then the item for injuries to persons. "Injuries to persons" is not solely injuries to the public, it also includes injuries to transportation employees.

Mr. Hazen: Did you have many accidents on the road last year which resulted in injuries to persons?

Mr. Cooper: I could not answer that.

Mr. Vaughan: We did not have many that resulted in injuries to passengers. We did have a few, but we did not have many very serious accidents. Of course, a casualty is always a serious matter, but we did not have what might be termed a very bad accident.

Mr. Hazen: About what proportion of those injuries to persons and property were paid for after judgments were rendered by court?

Mr. Vaughan: We could not give you that information offhand. Our claims representatives and legal departments endeavour to make settlements with people who are injured where the injury can be attributed to the Canadian National Railways' negligence. We find it better to endeavour to make a settlement than to have the case go to court, that is, provided a reasonable settlement can be made. If we find a reasonable settlement cannot be made, the case goes to court.

Mr. Hazen: Are the majority of cases settled before suit is commenced?

Mr. Vaughan: I would say yes.

Mr. NICHOLSON: In connection with roadway maintenance, the first item, I wonder if the president could tell us whether this expenditure has remained fairly constant during the war? Is the road in reasonably good shape? The second item, operating expenses, $8,000,000, did we spend approximately that amount each year during the war.

Mr. VAUGHAN: We spent, I think, a lower amount than that during the war because we could not get the men and materials to do the work we wanted to do.

Mr. NICHOLSON: Will that expenditure have to be increased over the next few years to bring the road back?

Mr. VAUGHAN: We are doing some additional work each year to catch up on the deferred maintenance as indicated in our accounts. This year we took $13,000,000 out of our reserves and did additional work on the roadway and on our equipment.

Mr. MCLURE: I should like to ask one question with regard to rent. Does the Canadian National Railways, on their bridge over the Hillsborough river, receive the rent from the government or is it paid into your account? I am speaking of the Hillsborough railway bridge from Charlottetown to Southport.

Mr. VAUGHAN: We would have to look that up. I do not know just how that matter is handled.

Mr. MCLURE: Instead of it being a direct toll, the government of Prince Edward Island has paid the toll of some $12,000 annually and has now paid, with interest, something like $600,000 for the bridge.

The CHAIRMAN: Any other questions.

Mr. BOURGET: On item No. 4, bridges, trestles and culverts, does that item include the reconstruction of old bridges or culverts or is it for the maintenance of bridges and culverts?

Mr. WALTON: It is for the maintenance of existing bridges, trestles and culverts.

Mr. BOURGET: Does that include the reconstruction of some that are completely out of order?

Mr. WALTON: In the case of reconstruction, a portion of the charge goes to maintenance and there may be also some capital charge. Generally speaking, it is for maintenance and upkeep. Just to amplify that last question you were asking, with respect to bridges, trestles and culverts. That is ordinary repair and upkeep as I said a moment ago. About ten lines further down you will find an item under road property—retirements, which in 1946 is put at $1,860,000. That takes care of the retirement of any structure of that nature which is taken out of commission and retired.

Mr. LAPOINTE: Could you find out whether there were any new bridges and trestles built during the year?

Mr. WALTON: Yes, there would be, in scattered locations in various parts of the country, probably quite a number of them. On page 18 about 8 lines from the top you notice bridges, trestles and culverts, an item of $541,000.

The CHAIRMAN: Mr. Emmerson, I think you had a question.

Mr. WALTON: That item is a capital expense in connection with any job such as you speak of.

Mr. LAPOINTE: Would it be very complicated to have a break-down of these figures as regards bridges and trestles? Is it possible to have it?

Mr. VAUGHAN: You mean with respect to new structures?

Mr. LAPOINTE: Yes.

Mr. Cooper: We could get it, but not to-day.

Mr. Lapointe: Yes, I understand that.

Mr. Vaughan: We will file it.

Mr. Emmerson: I would like to ask on the item "roadway machines", does that refer to mechanical ditch-diggers and so on?

Mr. Walton: Yes, various machines.

Mr. Jackman: Where do you have your dividing line between replacements of trestles, bridges and culverts, that is between operating expenses? Would you charge to operating expenses only brand new bridges and trestles?

Mr. Cooper: No, if a unit is retired from service and replaced by a new one we write the old one off. If the work is a case of retiring part of a unit that is all maintenance.

Mr. Jackman: If you replace a wooden bridge by a steel bridge what would that be?

Mr. Cooper: That would be a replacement. We would write the old bridge out by a charge to operating expenses and we would write the new bridge into capital.

Mr. Jackman: On these operating expenses, bridges, trestles, ties, and rails, I presume the $13,000,000 you mentioned earlier, being deferred maintenance and the inventory reserve, that was spread over and some charged against inventory account and some to maintenance reserve?

Mr. Cooper: The amounts taken from deferred maintenance and inventory reserves were credited to the accounts which had been charged in the first instance.

Mr. Jackman: It does not show in the operating expenses at all.

Mr. Cooper: No. For instance under the heading of "ties" there is a credit in there equal to the amount which had been charged to that particular account when the reserve was established. With respect to the credits from deferred maintenance reserve, they were confined to the equipment account and you see the application of credit is the last item in the first group of accounts on page 14.

Mr. Jackman: Your expenses were $6,000,000, a credit there.

Mr. Cooper: We applied the $6,000,000 credit to reduce our total expenses for maintenance of equipment.

Mr. Jackman: So that your equipment maintenance in the year 1946 is really a credit item? You brought the figures in italics in there?

Mr. Cooper: Yes, we spent $79,000,000 against which we applied a credit of $6,000,000 making a net of $73,000,000. With respect to the inventory credit that went to the same accounts which had been charged when the reserve was established.

Mr. Jackman: So that the amount spent on ties in that year, I will put it that way, was greater than $6,000,000.

Mr. Cooper: Yes. Our purpose was, Mr. Jackman, while in one year there was a credit to reserve and in the next year there was a debit to reserve, over a period, the accounts for each classification would be the same as if we never had any reserve. The accumulation figure would truly represent the total cost for the period for that particular class of expenditure.

Mr. Jackman: And we have deferred maintenance amounting to how much to write off yet?

Mr. Cooper: $33,000,000.

The Chairman: Gentlemen, we are asking questions on page 14.

Mr. McLure: There is one question I would like to ask on page 13 with reference to insurance, operating expenses of $28,000. What does that mean? "Insurance?"

Hon. Mr. Chevrier: That is the seventh item from the bottom.

Mr. Cooper: That would be property which is insured with outside underwriters. It represents premiums we pay to outside underwriters with respect to certain property insured with them. Ordinarily all our property is insured in our own insurance fund but in certain specific instances we prefer to carry the risk outside.

Mr. McLure: Take the new ferry boat, will she be insured by the Canadian National?

Mr. Cooper: I would not think she would be insured at all.

Mr. Vaughan: It has not been customary to insure those ferry boats because it has not been considered a very hazardous trip. However, when the boats go for overhaul they are usually insured.

Mr. McLure: They are insured then.

Mr. Vaughan: Yes.

Mr. McLure: When the Charlottetown went around for an overhaul she was lost.

Mr. Vaughan: Yes.

Mr. McLure: Was she insured by the government or the Canadian National railways?

Mr. Vaughan: She was insured by the Canadian National railways, the expense of which was charged to the government. We put $1,000,000 insurance on that boat just the day before she started on the journey and the underwriters paid that in full.

Mr. McLure: You paid the premium on that $47,000 or $49,000?

Mr. Vaughan: I do not recall what the amount was.

Mr. Emmerson: It was good business.

Mr. Watson: She was actually held a few hours until confirmation of that much insurance was received.

Mr. McLure: Yes, I know.

Mr. Hatfield: Who saved the money?

Mr. Walton: The government.

The Chairman: Is that all we have to ask on page 14?

Mr. Emmerson: Under maintenance of equipment, steam locomotive repairs, other locomotive repairs, freight train car repairs, I would like to get a statement if I could from the railway, over the last five years, of manufactured locomotive miles and the mileage consumed for the system in the various regions.

Mr. Walton: I think we can get that.

Mr. Emmerson: And in the car repairs the same return for the system over the last five years. The average work unit per hundred man hours, and the average wages per work unit for the system.

Mr. Vaughan: Have we got that set up that way Mr. Walton?

Mr. Walton: We can get that, sir. On the locomotives we have figures, I am quite sure on the basis of the manufactured miles, the miles run. On the car situation the figures will probably be in this shape. They will be by regions, and the number of cars repaired and the number of miles run. They are not quite as comparable as in the case of the locomotives. I will see when I come to the figures.

Mr. EMMERSON: It was not so much cost, as unit cost in the shops, for various reasons.

Mr. WALTON: I think we can give you that. I gave you some figures last year that were practically along the lines you are now asking.

Mr. HATFIELD: What is the difference in this "deferred maintenance—equipment", between the $6,000,000 for 1946 and the $2,500,000 for 1945, what does that consist of?

Mr. COOPER: In 1945 we charged our expenses with $2,500,000 with respect to work which was deferred. In 1946 we drew on our reserve to the extent of $6,000,000 and credited it back to the account to which it had been charged. There is a charge to expenses in 1945 and a credit to expenses in 1946.

Mr. NICHOLSON: The item on fuel, I notice, has been reduced from $35,000,000 in 1945 to $32,000,000 in 1946. With fuel costs rising generally, what is the explanation of this item being smaller?

Mr. VAUGHAN: We have used less fuel for one thing.

Mr. REID: You used more water, and that is an increase.

The CHAIRMAN: Are there any more question on page 14?

Mr. REID: May I ask does the railway pay for injuries to passengers? I thought they were all insured.

Mr. VAUGHAN: Let Mr. Walton answer Mr. Nicholson's question.

Mr. COOPER: With respect to fuel expenses and the amounts in 1946 as compared with 1945, there was an increase due to price of $679,000 and there was a decrease due to quantity of $1,423,000. There was also a write-back from inventory reserve of $3,100,000.

The CHAIRMAN: Now, Mr. Reid.

Mr. REID: My question was with regard to injury. I thought all insurable persons, travellers and so on, were insured but I see an item there of $527,000.

Mr. VAUGHAN: The answers is we do not insure them, we assume that risk ourselves.

Mr. REID: You do?

Mr. VAUGHAN: Yes.

Mr. REID: That is the amount paid out?

Mr. VAUGHAN: Yes, that is the amount paid out.

Mr. JACKMAN: In connection with damages, in a train wreck where a person loses his life and negligence on the part of the railway is proved, what are the damages anyway? Do they run to high figures? Are they much higher in the United States than in Canada, on account of the judgments?

Mr. VAUGHAN: Mr. MacMillan, our chief counsel is here and very likely he could make some remarks on that.

Mr. MACMILLAN: Well sir, there is really no yardstick on the question of the quantum of damages. It varies very materially with the individual concerned and again with the locality in which the cause of action is brought, or the locality in which the parties are injured. The damages generally are very much higher in the United States than in Canada.

Mr. JACKMAN: If a person has an earning power of $5,000 a year about how much would he get if he was killed?

Hon. Mr. CHEVRIER: If there was any contributory negligence, that would enter into it.

Mr. MACMILLAN: Yes.

Hon. Mr. CHEVRIER: There are so many factors that enter into it.

Mr. MacMillan: Yes, his age, his dependents, his earning power and the location in which he is killed affect the amount. For example, in some jurisdictions there is no right to recover funeral expenses while there is in other places. In the province of Quebec judgments for fatal injuries to young people of no earning power are very very small. In the maritimes they have the same rule we have elsewhere in Canada. Some jurisdictions take cognizance of loss of expectation of life and various other principles. There is no general rule that can be followed.

Mr. Jackman: Are the judgments in the United States about double what they would be in Canada?

Mr. MacMillan: Oh yes, all of that, and they vary by locality. Judgments in the New England states are higher than they are in Canada but not materially so. Claims on the Grand Trunk Western in Chicago are very heavy. Certain claims that are brought in New York City are very heavy.

Mr. Jackman: In connection with this T.C.A. accident, if it proves as unfortunate as it appears to be, there will be very heavy claims?

Mr. MacMillan: There possibly will be.

Mr. Jackman: All common carriers have to assume that liability? You cannot contract yourself out of it?

Mr. MacMillan: You can if certain very rigid rules are followed. T.C.A. in its contract of carriage does not attempt to contract itself out of common law liability.

Mr. Jackman: A man who is an importer of fruit was telling me that if the strike on the American railways last fall had been prolonged a few days a great many cars of fruit in transit would have been completely destroyed. Does the railway have any liability in that connection?

Mr. MacMillan: Our liability in Canada differs somewhat from the liability in the United States on the contents of a car. Generally speaking the rule is the carrier is under obligation to minimize the loss as much as possible. If they are moving a carload of perishable fruit, vegetables, fish or anything of that kind it is normally sold as soon as the point has been reached at which it is evident delivery is not going to be possible before the date on which the goods will perish.

Mr. Jackman: In connection with a strike where it might be impossible to get help to unload the car, your own men being on strike, would the railway be liable in that case?

Mr. MacMillan: Railway people on strike?

Mr. Jackman: Yes.

Mr. MacMillan: Or the consignees?

Mr. Jackman: Railway people on strike. Does the railway contract itself out of that liability?

Mr. MacMillan: I would rather hesitate to answer that on a general basis again. The bill of lading is quite different in so far as strike provisions are concerned in American carriage and our own. Generally the situation is that the railway must assume responsibility for those things which are in its control, and if a difficulty were to arise by virtue of a condition over which it did have a degree of control then I would think the railway would probably be responsible, but we do not encounter that problem frequently because the movement of perishable goods is very closely watched. When strikes appear imminent every effort is expended to get the goods to the destination or get a market where they can be disposed of without any loss. In the last American lines strike I do not think we had a carload of perishable goods that suffered loss at

all. We knew exactly where they were at the time the strike was going to hit, and they were taken into terminals where they could be either refrigerated or disposed of. We watched that for 36 or 48 hours prior to the deadline, and moved it that way. As I recall there were a few carloads that we had to take into St. Albans and refrigerate in the plants there. I do not think we had any claims on it.

Mr. JACKMAN: Generally speaking the railway does not contract itself out of liability on account of strikes?

Mr. MACMILLAN: No, we cannot. As you well know we do not determine these contracts. We carry the freight and the contract is given us by the Interstate Commerce Commission in the United States or the Board of Railway Commissioners in Canada.

Mr. JACKMAN: They allow you to contract yourself out?

Mr. MACMILLAN: Only in very isolated instances.

Mr. NICHOLSON: In connection with the question of injury to persons I was in correspondence with the mother of an engineer who was killed in a railway accident. I understand that compensation is being paid to her by the Workmen's Compensation Board of Manitoba. Is that the customary practice?

Mr. MACMILLAN: He was an employee.

Hon. Mr. CHEVRIER: That is a different question to the one asked by Mr. Jackman. One is an action arising out of liability by the railway company, and the one you speak of is compensation.

Mr. NICHOLSON: Injuries to a person.

Mr. MACMILLAN: All our employees are subject to workmen's compensation acts, and those statutes are provincial. They destroy the common law right of the deceased's estate to sue the employer, but give a right to compensation under legislation. That situation is general throughout Canada. In the case you have mentioned it would be the Workmen's Compensation Board that would determine firstly the validity of the claim of this man's mother, and secondly the amount of compensation to which she becomes entitled.

Hon. Mr. CHEVRIER: Fixed by the law of Manitoba.

Mr. HAZEN: Where did most of these injuries to persons occur, on the trains as a result of accidents, in stations or on roads? It is a large amount of money, $2,168,000.

Mr. MACMILLAN: That would be the last item?

Mr. HAZEN: The last item on page 15.

Mr. MACMILLAN: I am not personally familiar with the break-down of that account, but I should think in that item would be included injuries to passengers, which actually are not very large, probably injuries to persons at grade crossings and perhaps injuries to train employees.

Mr. HAZEN: Does it include train employees?

Mr. WALTON: Yes. In fact, that would be a very large proportion of the item.

Mr. HAZEN: Are all these claims based on negligence on the part of the railway?

Mr. MACMILLAN: Employees' claims are not determined by negligence at all. The right to compensation under the compensation Acts arises by virtue of the employment.

Mr. HAZEN: Under the compensation Acts do you contribute every year to the Workmen's Compensation Boards of the different provinces?

Mr. MACMILLAN: Yes, sir.

Mr. HAZEN: Would that be included in this item?

Mr. MACMILLAN: I would think it would be. Perhaps Mr. Cooper can tell you.

Mr. HAZEN: I should like to know.

Hon. Mr. CHEVRIER: The contribution would not be included but the amount of compensation fixed by the province would be included.

Mr. HAZEN: The compensation fixed by the province is paid by the board, not by you?

Mr. MACMILLAN: The railways are generally in what is the second part of a compensation Act, the class of self-insurers, and the mechanics of that part of the Act are different. We do not pay an assessment on the payroll but rather when an accident occurs and the board has determined the capital value of the pension or payment then we are called upon to recoup the previously made deposit to the extent of that specific case.

Mr. HAZEN: Can you give us any break-down between injuries to employees and injuries to other persons represented by this amount of $2,168,000 you paid out, part of it being to employees and part to the public? Would you have any figures?

Mr. COOPER: We can get that. It would take a little breaking down.

Mr. HAZEN: I do not want to be too much bother. What I have in mind is whether every effort is made on the part of the railway to prevent these claims for negligence arising?

Mr. VAUGHAN: We conduct campaigns constantly in respect to that.

Mr. HAZEN: Are they having any results? How do the figures compare taking one year with another as to the amounts you have to pay for injuries to the public? Is there any noticeable decrease in the last few years?

Mr. MACMILLAN: If I may say a word on that, the number of accidents bears a relatively chose relationship to the total traffic, and to the extent our passenger movements and the number of trains operating have increased in recent years the number of claims has gone up. Also in recent years the public has become much more claims conscious. The amount that we have been called upon to pay in respect of individual accidents has increased. That is particularly so in any claims that originate in the United States, or Canadian claims which are sued in the United States.

Mr. HAZEN: Is the public any more claims conscious in one part of Canada than another?

Mr. MACMILLAN: I think they are.

Mr. HAZEN: In which parts are they most claims conscious?

Mr. MACMILLAN: I would say it is a definite fact that on the prairies the claims are not as large as they are elsewhere in Canada.

Mr. MUTCH: They are accustomed to doing without.

Mr. WALTON: One thing should be mentioned in connection with these figures. As the wage scale rises payments from this source will increase comparably, of course, because the larger part of these injuries is to employees, not to passengers. The higher the wages go the more money.

Mr. NICHOLSON: The total amount for injuries to persons under maintenance of way, maintenance of equipment and transportation comes to $3,413,000. That appears to be a very large amount. What are the prospects of carrying on a more effective educational program in coming years with a view to reducing it?

Mr. VAUGHAN: We have a safety department. We are constantly carrying on campaigns with meetings amongst our various employees impressing upon them the importance of carrying on their duties with regard to safety.

Mr. NICHOLSON: Have you had any films produced?

Mr. WALTON: Yes, we have been using films.

Mr. VAUGHAN: We have had films produced. We are constantly after that. It is something that has given us much concern because we realize the expense is considerable. Sometimes we think very unfair verdicts are given, particularly in the United States. Their verdicts over there are tremendous for comparatively slight injuries. We have contested a great many of them. If a man lost his leg what would he get over there?

Mr. MACMILLAN: Probably about $30,000.

Mr. VAUGHAN: We get many verdicts of that kind over there.

Mr. MCLURE: Was it not the proud boast of the Canadian National Railways that during the years 1939 to 1945 they carried a very large number of people, soldiers and so on, with a minimum of injuries, the lowest that had ever been known to the road?

Mr. VAUGHAN: Are you referring to the Canadian National Railways?

Mr. MCLURE: Yes.

Mr. VAUGHAN: We did carry a very large number of passengers, and our accidents were very few. That is injuries to passengers.

Mr. MCLURE: That is what I mean.

Mr. VAUGHAN: But unfortunately almost every day we are having some of our employees injured or killed in a yard here or there in switching operations.

Mr. REID: What is meant by colonization agriculture and natural resources? I see that has increased. Is that always under one department? What is meant by agriculture there? What do you do there by way of work and what expenses do you have, and the same thing as to natural resources?

Mr. VAUGHAN: We have a department under Mr. McGowan who handles agriculture, immigration and colonization. It is quite a large department. They have much to do with assisting farmers and co-operating with agriculture departments of provincial governments. It is an important department, a very busy department.

Mr. HAZEN: Can you tell us what your losses are of freight due to theft?

Mr. WALTON: I do not know whether we have the figures with us. A breakdown is available of that part of the loss which was due to theft. Unfortunately, they have been higher in recent years. We maintain a police force and do our best to prevent these losses, but relatively they have been high in the last two or three years; may I add that that is particularly true with respect to the theft of tobacco and cigarettes.

The CHAIRMAN: Mr. Hatfield, I think you had a question?

Mr. HATFIELD: Yes, I had a question I wanted to ask about the disciplinary action taken with respect to employees who fail to observe the rules; for instance, let us say with respect to the meeting of trains. What punishment applies?

Mr. WALTON: There is a system of discipline by which for a very serious offence a man is dismissed; and for something less he may be graded down or suspended.

Mr. HATFIELD: I have a case here where an engineer passed a meeting point, this was in February, the 27th of February, 1947; he had had two other accidents in the Quebec region, one at Matane; and they resulted in two deaths and some injuries, but he only received forty-five days suspension. What was the cause of that?

Mr. WALTON: I do not know that particular case but I would be glad to look into it for you.

Mr. HATFIELD: I would like to have a report on that.

Mr. WALTON: What did you say the date of the accident was?

Mr. HATFIELD: February 27, 1947.

Mr. NICHOLSON: What is the general policy in cases of that sort? That was the third offence and it seems to me that forty-five days out of the service would not be anything like an adequate penalty.

Mr. WALTON: I will look the papers up and see what the story is.

The CHAIRMAN: Is page 17 carried?

Agreed.

Can we go down now to page 18, "Property Investment Account"?

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1946

ROAD:		
New Lines Constructed	$ 23,645.15	
New Lines Acquired	7,000,000.00	
Abandoned Lines	*788,321.20*	
Rails and Fastenings	542,882.92	
Tie Plates and Rail Anchors	848,592.03	
Ballast	491,232.85	
Widening Cuts and Fills, etc.	210,548.03	
Large Passenger Terminals	108,340.00	
Yard Tracks and Sidings	432,647.67	
Roadway Machines	170,722.22	
Bridges, Trestles and Culverts	541,053.78	
Stations and Station Facilities	550,312.93	
Shops, Enginehouses and Machinery	1,314,920.09	
Automatic Signals and Interlocking Plants	128,507.69	
Telegraphs—Railway	157,656.40	
Telegraphs—Commercial	753,570.13	
Land	*864,436.91*	
General	90,188.42	
		$11,712,062.20
EQUIPMENT:		
Equipment Purchased or Built	$5,909,373.89	
Equipment Retirements	*1,607,382.21*	
General Betterments to Equipment	877,606.40	
Equipment Conversions	*191,204.07*	
Expenses and Miscellaneous Equipment	105,093.52	
		5,093,487.53
HOTELS		46,912.26
SEPARATELY OPERATED PROPERTIES		*542,664.55*
NET ADDITIONS AND BETTERMENTS DURING 1946		$16,309,797.44

Ledger Balance 1st January, 1946		$ 2,037,638,598.03
Net Additions and Betterments during the year	$16,309,797.44	
Equipment retirements—proportion of ledger value charged to Proprietor's Equity	*1,307,952.35*	
		15,001,845.09
Ledger Balance at 31st December, 1946		$ 2,052,640,443.12

DOMINION OF CANADA—LOANS

	Principal Outstanding at Dec. 31, 1946	Interest Accrued 1946	Average Interest Rate
Loans for repatriation of U.K. securities	$391,390,473.11	$13,693,940.90	3·50%
Loans for debt reductions	226,464,594.21	5,001,669.12	2·30%
Loans for new rolling stock	70,003,238.36	2,140,228.23	2·89%
Loans for working capital	13,906,999.71	486,774.98	3·50%
	$701,765,305.39	$21,322,583.23	3·05%

Mr. JACKMAN: Do you want to go on to one o'clock, Mr. Chairman?

The CHAIRMAN: We started a little early. It is up to the committee. I would like to get in as much time as we can. We have been here approximately two hours.

Hon. Mr. CHEVRIER: We have been two days on this.

Mr. JACKMAN: Do you want to sit to 1.30 and call it a day?

The CHAIRMAN: I think the committee would rather shut off at a reasonable time and come back at four o'clock, if that is agreeable. No one wants to sit too long at a stretch. Do you want to go until half-past twelve? What is the feeling of the committee? We have been here since ten.

Mr. McLURE: Let's sit till 12.30.

Mr. JACKMAN: Yes.

The CHAIRMAN: We will go on until 12.30 and if agreable we will try to come back at four o'clock.

Mr. LAPOINTE: Is there any new construction in that?

Mr. COOPER: That is all new construction.

Mr. LAPOINTE: Would that be the proper item under which to discuss stations?

Mr. COOPER: New stations?

Mr. LAPOINTE: Or should we wait until the budget is before us to bring up matters of that kind?

Mr. VAUGHAN: I think it would be well to get it out of your system now.

Mr. LAPOINTE: Mr. Nicholson yesterday brought up the question of stations and there is a similar condition which exists at some points in my section of the country. I would like to refer particularly to one station at a place called Laurier where I myself experienced what Mr. Nicholson was speaking about yesterday, having to wait outside in sub-zero weather because the station was filled with perishables, there was no other place to put them. That has been going on all during the war years. Traffic at that point is heavy and I think you will find the revenue from that station has increased considerably because it serves seven or eight of the larger municipalities and communities, but the facilities are definitely not adequate. Many representations have been made about that situation. I made them myself. I did not get any action on it last year because I was told it would have to be considered in the budget for the coming year. I was told the same thing again this year. I suggest that two years is sufficient time in which to give consideration to a matter of that kind and something should be done about it, by enlarging facilities, and possibly putting up another building, freight sheds for all commodities that go through there. The thing has not been cleared up by any manner of means. I would be very much surprised if the health department would approve of a good many of the commodities stored in a waiting-room in the condition in which that one is. And I want to point out that that is not due to the service given by the agent who is doing his best to cope with the situation. I recall that when I asked him last year that he only received an allowance of $4.50, a budget of $4.50 a week out of which to hire somebody to keep the place clean and he could not find anyone to do it for that amount and he could not do it himself because he was so busy with other work.

Mr. VAUGHAN: I will certainly look into that. I have a recollection of seeing something for the Laurier station. We will look at the budget and see whether there is anything in there. I would like to again draw attention of members of the committee to the fact that it is still very difficult to get materials. I know that has been a stock excuse.

Mr. LAPOINTE: If you want me to, I can direct you to people who will be glad to furnish you with any supplies necessary for building purposes.

Mr. VAUGHAN: There never was a time, even during the war when lumber or steel were so difficult to get as they are to-day. But I have a recollection of something about the Laurier station. We will look it up and if it is not in our budget we will look over the situation again.

Mr. NICHOLSON: I would like to draw your attention to this, we had a report last year of losses amounting to $2,000,000, and I think it can be argued that where you have so much perishable freight stored in waiting rooms, and where it all has to be handled by one agent or station master who has also to look after his wires and everything else, it is almost impossible for him to keep his eyes on all of it. From the business point of view it would seem to me to be desirable to have heated storage facilities in these larger centres so that it would not be necessary to fill the waiting rooms with perishable freight.

Mr. VAUGHAN: Sometimes they do that as a matter of convenience, because it is warmer and easier to handle inside than outside in a shed which is not heated.

Mr. NICHOLSON: That is true, and there is also the point I raised yesterday, that there is no other place in which to put it except the waiting-room.

Mr. VAUGHAN: We took a note of that place you mentioned yesterday.

Mr. HAZEN: Does this item include that new line you are constructing to Barraute?

Mr. COOPER: Yes.

Mr. EMMERSON: While you are on that subject of buildings, there are a number of stations on the main line in the Atlantic region where they have proper or sufficient equipment but these stations are locked up at various points where night trains are operated. In the summer that is not so bad but during the cold weather it is different, people have to come in there and wait for trains and there is no shelter for them of any kind. The shelter is there, but the doors are locked. It used to be the practice that these stations were left open for the convenience of people waiting for trains; now they are closed.

Mr. VAUGHAN: In cases where a train is scheduled to stop at the station or stop on flag the station is usually left open for the convenience of anyone who may come down to meet a passenger arriving, or anyone wishing to take the train.

Mr. WALTON: Is there any particular locality which you have in mind, or is the situation fairly general?

Mr. EMMERSON: I would not like to say it is general, but on the Moncton division I had in mind one point, Dorchester, where that applies. The operator or station master lives some distance from the station and both waiting-rooms are locked at night.

Mr. WALTON: We will take that up, particularly with regard to Dorchester but it may apply to other points.

Mr. EMMERSON: I cannot say definitely.

Mr. WALTON: The intention is to have the waiting room available.

Mr. VAUGHAN: We have to watch the hours of the staff carefully because the matter of overtime is involved. That is very expensive to the railway.

Mr. EMMERSON: That is true, you do not want to run an extra trick to give the service. It used to be that station waiting rooms were left open.

Mr. WALTON: There is some objection to leaving waiting rooms open if no one is in attendance. You get loiterers, and sometimes it is not very desirable.

Mr. EMMERSON: In many cases one has to wait an hour or two hours, and the waiting room should be open.

Mr. VAUGHAN: We will check that up, Mr. Emmerson.

The CHAIRMAN: Any other questions on page 18?

Mr. LAPOINTE: Coming back to the question of repairs, I do not know whether I am in order or not and if I am not you can tell me, I am given to understand that the district superintendents have a budget of which they can dispose. In other words, they have the authority to do certain maintenance work or repairs to stations up to a certain amount, say $500, and after that, the matter has to be decided by a higher authority in the company. Is that the case?

Mr. WALTON: Yes, that is substantially the case. The smaller jobs are left to the local men to look after. When it comes to the larger expenditures there has to be the necessary supervision and consideration of the territory as a whole.

Mr. LAPOINTE: In other words, the district superintendent is the man upon whom you should put the pressure to get the small repairs done?

Mr. WALTON: Yes, but, on the other hand, we do limit his expenditure.

Mr. VAUGHAN: Expenditures on our railway are budgeted very carefully and I should like to impress upon this committee the fact that we do not waste any money if we know it.

Mr. MCLURE: With respect to the item for shops, houses and machinery, that is not for new equipment, is it? It is just an inventory of your total investment in that, is it not?

Mr. WALTON: That is the capital expenditure for the year 1946 on all the various shops, engine houses and machinery installed in those shops and round houses.

Mr. MCLURE: Is it still your policy to centralize all repairs, for instance, in such places as Moncton and Montreal? The reason I bring that point up is that we had an engine house and shops in Charlottetown. At one time these shops employed some 300 men. To-day the number of employees is reduced to about 65 or 70. Apparently, there is work which could be done cheaper right in Charlottetown than by having it done in Moncton. For example, take the fixing of car wheels, I do not know just what term you use for it, I think it is the grinding of them. These wheels are loaded on cars and shipped to Moncton. Then, they go through the process there and have to be returned to Charlottetown. This takes a long time. The machinery to do that work and the men are right in Charlottetown and it could be done in one-tenth of the time it takes and perhaps for one-tenth of the expense.

Mr. WALTON: The work on Prince Edward Island will be rather self-contained in regard to locomotives when these new diesels are placed there. Apart from that, we favour the plan of centralization for general repairs just as much as we can. When all factors are considered, it is the economical way to handle general repairs. As a matter of fact, we still have several more general repair shop points than our competitors have. They have narrowed it right down to three shops, Montreal, Winnipeg and Calgary. We still have locomotive shops at Moncton, Riviere du Loup, Montreal, Stratford, Transcona, Winnipeg, Edmonton and Port Mann. The car repair points for the heavy work are Moncton, Pointe St. Charles, London, Transcona, Winnipeg and Leaside, Toronto. In other words, we are not nearly as centralized as our competitors and we think it is rather unfortunate that is the case because centralization is the economical way to handle these standardized, heavy repairs.

Mr. JACKMAN: Who owns that locomotive round house out at the junction in Toronto, near the packing plants?

Mr. WALTON: At John Street?

Mr. VAUGHAN: That is the Canadian Pacific round house there.

Mr. JACKMAN: They have another one in Toronto.

Mr. VAUGHAN: Yes, we both have round houses in Toronto, but they have a round house in West Toronto.

Mr. JACKMAN: You mentioned only three places for them.

Mr. WALTON: I am not speaking of round houses, but heavy repair shops. We do running repairs at a hundred different round houses throughout the country.

Mr. JACKMAN: Does the engine go into the round house after every trip?

Mr. WALTON: Yes, in some cases with heavy power they make a longer trip before going to the round house, such as running over two or three subdivisions. However, after every trip they go into the round house for running repairs as distinct from heavier repairs.

Mr. EMMERSON: Are the engines still running from Halifax to Montreal?

Mr. WALTON: Yes; on the passenger trains.

Mr. NICHOLSON: In connection with the item on automatic signals, $928,000, which is fairly small, what are the plans for making a more extensive use of automatic signals?

Mr. WALTON: At the moment, we are not planning any extensive additions to our automatic signal system. We have quite a mileage in signalized territory already, notably Moncton to Halifax and Montreal to Chicago, and a few smaller, short sections. Having in mind the density of traffic, we have not an extensive scheme of additional automatic signal installation in mind at the moment.

Mr. EMMERSON: Has there been reduction in accidents since the establishment of C.T.C. on the Moncton run?

Mr. WALTON: Yes, there has been, the accident record has been exceptionally good in that C.T.C. territory for the reason the whole movement is governed by signals. The man does not have to remember his train orders, and so on.

The CHAIRMAN: Is there anyone else who desires to ask questions?

Mr. LAPOINTE: Those signals are signals for the operation of the railroad and not for railway crossings?

Mr. WALTON: No, those are for the operation of the railway. One reason we have for not extending too fast in that direction is that it costs upwards of $10,000 a mile for centralized traffic control. We can only afford to put it on very heavily travelled sections of the line.

The CHAIRMAN: What about page 19?

Mr. McLURE: That property, land, the $864,000 on page 18, is that an investment in property?

Mr. VAUGHAN: That is a credit item, Colonel McLure. That represents land sold.

Mr. JACKMAN: What is the credit item of $542,000 for separately operated properties? Under property investment accounts, the last item, page 18.

Mr. COOPER: The Canadian Northern Land Department $426,000, that would represent land grant lands disposed of; the Canadian National Realties, $173,000; the Industrial Land Company, $146,000; Consolidated Land Corporation, $94,000. Those last two companies are in the States of Michigan, Indiana, and Illinois. I think the four items substantially account for the total.

Mr. JACKMAN: Have you some millions of dollars of land still not being used in the railway service?

Mr. COOPER: We have considerable acreage but I do not think it is in the magnitude of millions of dollars.

Mr. VAUGHAN: We are getting that information, I think you asked for it yesterday, Mr. Jackman.

The CHAIRMAN: Is that all on page 18?

Mr. JACKMAN: I noticed in the final paragraph of the president's remarks that service men had been pretty well replaced and you had taken on additional men who had seen service. In regard to the men that were in your employ and who did see service in the armed forces, did you have any difficulty in giving them back their seniority? Were they allowed that time towards their seniority?

Mr. VAUGHAN: Yes, in each case they were reinstated in as good or a better position than they had.

Mr. JACKMAN: What did you do about their accrued pension rights?

Mr. COOPER: We protected them, we gave them one per cent of each year of war service on their annual earnings.

Mr. JACKMAN: The company made its contribution towards the pension fund on their behalf.

Mr. COOPER: That is right.

Mr. JACKMAN: At the full rate?

Mr. VAUGHAN: Based on an average.

Mr. COOPER: Our pension is on a contributory basis and these employees were not in a position to contribute so we made a rather special arrangement for them which special arrangement took the form of giving them one per cent of their last ten years' average salary for each year of war service.

Mr. JACKMAN: Had they still been working with the company instead of enlisting would they have received a greater contribution than one per cent from the company?

Mr. COOPER: I do not think so. I think the one per cent is possibly better.

Mr. JACKMAN: There has been no dissatisfaction among their numbers?

Mr. COOPER: No sir, none whatever.

Mr. JACKMAN: Some years ago we mentioned the advisability of university men being taken on by the railway. Is that now progressing?

Mr. VAUGHAN: It is progressing.

Mr. JACKMAN: Have you anything to report?

Mr. VAUGHAN: I have nothing to report, we are getting men from the university each year, largely based on recommendations from the principals or the deans of the universities as to the capabilities of these young men and we take a certain number of them into the service each year and move them around from department to department. We think that we will know in a couple of years whether they will make railroad men or not.

Mr. JACKMAN: You have not yet had enough experience.

Mr. VAUGHAN: No, you see we were not able to get any of these men during the war, but since the war we have had quite a few.

Mr. JACKMAN: I suppose if you move them around it will lessen any possibility of indignation on the part of the men who have not had that university experience.

Mr. VAUGHAN: Oh yes, it is very well understood by the heads of the departments that these young men are to be given every opportunity to learn something about various departments. However they are not displacing men who have been with us for some time.

Mr. JACKMAN: You are still giving preference to servicemen?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Do you draw particularly from the engineering graduates?

Mr. VAUGHAN: To a large extent but not altogether.

Mr. JACKMAN: It looks very promising altogether, does it?

Mr. VAUGHAN: Yes, we think that we will be able to build up a good staff.

Mr. EMMERSON: You allow shop men and others leave of absence to attend college.

Mr. WALTON: Yes, after a certain length of time. The point is he cannot just join and then get leave of absence.

Mr. JACKMAN: They leave to attend full time courses of instruction.

Mr. WALTON: Yes.

The CHAIRMAN: Are there any other questions?

Page 19, funded debt, principal and interest:

FUNDED DEBT—PRINCIPAL AND INTEREST

Name of Security	Issuing Company	Date of issue	Date of maturity	Principal outstanding at Dec. 31, 1946	Interest accrued 1946
				$	$
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	1,473,495.26	73,342.58
5% G.W. Perp. Debenture Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	853,272.66	42,372.47
4% Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	5,960,094.73	236,903.50
4% Nor. Rly. Perpetual Debenture Stock	G.T.R.	July 31, 1884	Perpetual	27,457.73	1,098.31
3% 1st Mortgage Bonds	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.90
4% Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3% 1st Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768.33	34,883.04
3½% 1st Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,636,508.16	197,287.05
3½% 1st Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	550,726.60	19,276.88
3½% 1st Mortgage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,603,182.68	126,008.21
5% 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500.00	2,886,425.00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	886,900.00
4¾% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000.00	2,303,560.00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3% 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
3% 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
Total				486,820,210.15	20,880,643.90
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	798,055.48	31,687.99
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,154,052.13	51,979.00
Total				1,952,107.61	83,666.99

FUNDED DEBT—PRINCIPAL AND INTEREST

Name of Security	Issuing Company	Date of issue	Date of maturity	Principal outstanding at Dec. 31, 1946	Interest accrued 1946
				$	$
EQUIPMENT TRUST ISSUES:					
2½% Series "O"	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	1,430,000.00	56,604.17
2¾% " "P"	Can. Nat.	Sept.15, 1938	Ser. 15, 9,'53	3,600,000.00	108,739.61
2½% " "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	1,950,000.00	56,875.00
2½% " "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	2,557,000.00	73,425.00
Total				9,537,000.00	295,643.78
OTHER ISSUES:					
4% Canada Atlantic 1st Mortgage Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	9,947,934.00	397,919.79
4% 1st Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd Mtge. Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,574,530.00	142,991.45
4% 2nd Mtge. Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,144,906.00	125,827.00
4% 1st Mtge. Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,008.00	86,090.57
4% Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	3,994,024.66	158,939.70
4% Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,084.13	35,605.37
4% Perpetual Cons. Debenture Stock	C.N.Q.	Oct 1906	Perpetual	465,545.33	18,621.81
4% 1st Mtge. Perp. Debenture Stock	Q & L. St.J.	June 1, 1912	Perpetual	287,289.07	11,491.56
4% 1st Mortgage Bonds	G.T.W.	Nov.30, 1900	July 1, 1950	6,527,336.00	261,237.86
4½% 1st Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% 1st Mortgage Gold Bonds	M. & P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5% Indebtedness to Province of N.B.	Can. Nat.	Sept. 3, 1929	Feb. 15,1958	380,022.60	19,001.12
Interest on Securities retired in 1946				—	808,833.28
Total				32,113,679.79	2,098,559.51
Total Debt held by Public (including therein $5,286,302.38 par value held in Special Funds and Accounts) as per Balance Sheet				530,422,997.55	23,358,514.18

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.
This schedule does not include securites in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

Mr. JACKMAN: The total equipment and trust issue shows $9,537,000 for the whole system.

Mr. COOPER: Yes.

Mr. JACKMAN: I was just wondering whether in view of the fact you have $525,000,000 of rolling stock on hand if it would not be a cheaper way to raise money by increasing the equipment trust issues because I noticed under the Dominion of Canada loans here on rolling stock, the loans have an average interest of 2·89 per cent, whereas other borrowings are at 3½ per cent. Would it be worth while buying more of your rolling stock under equipment loans in order to get the cheaper rate?

Mr. VAUGHAN: That is a matter that we are considering at the present time, particularly in connection with financing equipment that is in our budget. We have not determined yet whether we will call for tenders on an equipment issue or not. We will have to wait until after consultation with the Department

of Finance to see if we can borrow from them at a satisfactory rate or whether money would be cheaper outside.

Mr. JACKMAN: What do they charge you on loans when you borrow from the government?

Mr. COOPER: I think the answer is, Mr. Jackman, that on the second day of January of this year we made a $50,000,000 issue.

Mr. JACKMAN: For rolling stock?

Mr. COOPER: No, it was a general issue and out of it we repaid to the government all our loans for rolling stock which were on a $3\frac{1}{2}$ per cent basis.

Mr. JACKMAN: What rate did the $50,000,000 issue run at?

Mr. COOPER: $2\frac{3}{4}$ per cent.

Mr. JACKMAN: Sold at par?

Mr. COOPER: There was a fractional discount.

Mr. JACKMAN: The net cost was about $2\frac{3}{4}$ per cent?

Mr. COOPER: About 2·77.

Mr. VAUGHAN: I think it was 2·77.

Mr. JACKMAN: In other words if you do not get the money you want for the rolling stock requirements at 2·77 or better, and by the way this, then, was not a rolling stock equipment issue?

Mr. COOPER: No.

Mr. JACKMAN: Just a government guaranteed issue?

Mr. COOPER: A government guaranteed issue.

Mr. JACKMAN: Would the rolling stock issue bear about the same rate now?

Mr. COOPER: No, rolling stock is cheaper.

Mr. JACKMAN: In Canada what would it likely bear, roughly?

Mr. VAUGHAN: We think we should get a rolling stock issue here at 2 per cent or $2\frac{1}{4}$ per cent.

Mr. JACKMAN: And in the United States?

Mr. VAUGHAN: In the States they have had some fairly low rates depending upon the amount of money paid back each year through sinking funds. I think they have been getting some as low as $1\frac{3}{4}$ per cent.

Mr. JACKMAN: Well, may I ask if you are a free agent to decide for yourself how you want to do it, if you have a new rolling stock issue to finance?

Mr. VAUGHAN: Oh yes, sir, we are.

Mr. JACKMAN: You do not have to accept the government's terms if you think you can do better somewhere else.

Mr. VAUGHAN: No. Of course, during the war we did keep out of the way of the government when they were raising loans.

Mr. COOPER: The government equipment issues were entirely due to war conditions.

The CHAIRMAN: Colonel Lapointe, you had another question.

Mr. LAPOINTE: No, it does not matter at the moment.

The CHAIRMAN: Well it is 12.30. We can meet at 4.00 o'clock. Perhaps we can carry on from 4.00 until 5.30 this afternoon.

We are on page 19 now.

The meeting adjourned at 12.30 p.m. to meet again this afternoon at 4.00 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: I believe we have a quorum and we can start. There were some questions asked before we closed up at noon and I think Mr. Vaughan has a number of the answers ready. If it is agreeable with you he will give them now.

Mr. VAUGHAN: A question was asked by Mr. Jackman as to the number of acres of unsold land we still have in western Canada. The answer is 278,120 acres.

Mr. JACKMAN: May I ask as a matter of interest, when the C.N.R. was taken over by the system, Prairie Lands I suppose had been formed before that and all the C.N.A. land went into that company?

Mr. VAUGHAN: This occurred many years ago. As I recall, when Prairie Lands was formed, they purchased several thousand acres of land from the Canadian Northern.

Mr. JACKMAN: And those acres which you have now, did they come from the old system, from the old C.N.R. or are they other lands?

Mr. VAUGHAN: I think they are mostly C.N.R., also some Grand Trunk-Pacific and some Crown grants.

Mr. JACKMAN: Most of the land is suitable for colonization?

Mr. VAUGHAN: Some of it is and some of it is not. We have a report on each individual section as to the nature of the soil. I do not recall off-hand just what portion of that might be considered good land. A lot of it is marginal and perhaps not fit for much except grazing, but there is still some good acreage.

Mr. NICHOLSON: Have you a breakdown according to provinces?

Mr. VAUGHAN: No, I haven't got that.

Mr. JACKMAN: Have you still a lot of land agreements? Last year, for instance, you had got in quite a bit of money. Do you have the expectation of getting in substantial sums of money from lands which you have sold?

Mr. COOPER: Last year's collections were very good indeed.

Mr. JACKMAN: Does it amount to a considerable sum?

Mr. COOPER: That is, what amount is still outstanding?

Mr. JACKMAN: Yes.

Mr. LOCKHART: While Mr. Cooper is looking up the answer for Mr. Jackman could Mr. Vaughan tell us whether any of those lands are still being offered for sale?

Mr. VAUGHAN: Those lands are still being offered for sale.

Mr. LOCKHART: Yes, and could you tell us the approximate sale price?

Mr. VAUGHAN: I have not the figure here, but could get it.

Mr. LOCKHART: I have had one or two inquiries.

Mr. COOPER: $2,000,000.

Mr. JACKMAN: Is that what came in last year?

Mr. COOPER: No, $2,000.000 outstanding on contracts.

Mr. NICHOLSON: What is the general selling policy with regard to land available? Do you try to push sales?

Mr. VAUGHAN: Yes, sir. We have a land department located in Winnipeg which has been supervising our land sales for many years and they are constantly endeavouring to sell these lands particularly at times when the market is good and the price fair.

Mr. NICHOLSON: Have you a record of the land sold last year?

Mr. VAUGHAN: I do not think we have it here but we can get it for you. Have you got it, Mr. Cooper?

Mr. COOPER: No.

Mr. VAUGHAN: We will get it for you.

Mr. JACKMAN: Do you have to pay taxes on this land or was it granted to you tax-free?

Mr. VAUGHAN: We pay taxes on it.

Mr. JACKMAN: Speaking of the system as a whole, what is the general principle in regard to municipal taxation on all the Canadian National lines, apart from the Canadian government railways, you pay taxes on Canadian National lines?

Mr. COOPER: We pay taxes in Quebec, that is municipal taxes, Ontario and in Alberta and British Columbia.

Mr. NICHOLSON: How about Saskatchewan and Manitoba?

Mr. VAUGHAN: We pay a special tax there.

Mr. COOPER: Under provincial legislation we were exempted from municipal taxation in Manitoba and Saskatchewan. We pay taxes to the provinces which I think were intended to cover the taxes to the municipalities.

Mr. JACKMAN: Was it part of the agreement when you went there in the first place that you did not pay taxes on the land which you had?

Mr. COOPER: Well, I do not know about that. It is in the legislation of Manitoba and Saskatchewan that municipalities cannot tax the railways.

Mr. JACKMAN: That must be a right which the railways acquired at some time, I suppose. In the maritime provinces you do not pay any municipal taxes at all.

Mr. COOPER: We pay in a few isolated instances on what we term non-railway properties.

Mr. JACKMAN: Was that because the railway there was the old Intercolonial?

Mr. COOPER: Generally, yes.

Mr. MCCULLOCH: What about your properties in Montreal?

Mr. VAUGHAN: The situation there is different. Our property in Montreal is vested in the railways. The property at Halifax is vested in the Crown.

Mr. MCCULLOCH: Could you have that changed?

Hon. Mr. CHEVRIER: I suppose parliament could do that, but that is a question which has come up before I think on many occasions. It is the subject of a lawsuit now in Halifax and Saint John. Mr. Hazen brought that up the day before yesterday. It is a question of the railways in the maritime provinces being vested in the Crown as opposed to the railways in upper Canada being vested in the Canadian National Railways.

Mr. MCCULLOCH: I am thinking not of Halifax as much as the rest of Nova Scotia, Halifax is not all of Nova Scotia.

Hon. Mr. CHEVRIER: It covers Nova Scotia, part of Prince Edward Island and some of it is in New Brunswick as well.

Mr. JACKMAN: Does the Crown not pay those municipalities anything in lieu of their rights to tax?

Hon. Mr. CHEVRIER: I understand that there are some payments made. Is that not correct, Mr. MacMillan?

Mr. MACMILLAN: That is right, sir.

Mr. JACKMAN: I understand that during the war in Great Britain where they had many war factories the Crown there paid a rate which I understand was identical to that to which the property would have been subject had it not been

held in the name of the Crown. Is there anything paid to those municipalities down there equivalent to what they would have if the property had been taxable?

Hon. Mr. CHEVRIER: I do not know if they are on the same basis at all. I do not know whether there is any relationship between the amounts paid in Great Britain and here.

Mr. JACKMAN: The principle was that they gave exactly the same amount but did not recognize the right of the municipality to tax the Crown. Do we deal as fairly here with this property which is owned by the Crown and used by the railway system? Do you happen to know if the amounts paid for the use of the properties, that is in the way of rates paid in lieu of taxes, is about equivalent to what the taxes would be?

Mr. VAUGHAN: We pay very little, Mr. Jackman, in the way of taxes down there. We pay taxes voluntarily, for instance, at Halifax, on the hotel. There are certain negotiations now going on in respect to taxes and something may come out of them.

Mr. JACKMAN: I understand there is a suit pending at the present time?

Hon. Mr. CHEVRIER: Yes.

Mr. JACKMAN: How much would the value of the property used by the railway be in the city of Halifax?

Hon. Mr. CHEVRIER: The lawsuit has to do not only with the taxation at Halifax, I think it has to do with taxation elsewhere as well. Is that right, Mr. MacMillan?

Mr. MACMILLAN: Yes. The present legislation is with respect to legislation given the cities of Halifax and Saint John to levy a business tax against the Canadian National as manager of Canadian government properties, based virtually on the assessed value.

Mr. JACKMAN: That business tax, is it the same as the normal tax rate of the city of Halifax?

Mr. MACMILLAN: Yes, it is on a sliding scale.

Mr. JACKMAN: Is it a general tax rate they apply in the city of Halifax against business assessments, the tax to which you have just referred; and, is it about equal to the value of the property?

Mr. MACMILLAN: I think the business tax situation in the city of Halifax is quite unlike that which is in effect elsewhere in the dominion. The scale climbs very quickly and it provides revenue derived elsewhere from the annual assessment on real property. It would really be quite difficult to compare it to the general assessment in Toronto, or the business tax.

Mr. JACKMAN: In considering the results of the system it might be of some interest to the committee to know how much property was held in the various municipalities of the maritimes which was not subject to the ordinary municipal taxes; and once given that you could deduct from it the amount paid in lieu of taxes. I understand there is some contribution, as Mr. Vaughan mentioned with respect to the hotel business; and in that way you could arrive at the net saving to the railway company because of certain properties held by the Crown. That would be very interesting. Could that be given to us?

Hon. Mr. CHEVRIER: I understand that that is evidence which has already been submitted in the Saint John court; and if it is, then I do not think it should be given here since the matter is sub judice. This matter of taxation is one that is under litigation now and I doubt if it is a rule of this committee any more than it is a rule of the House to give information which is given in evidence in a court of law while the matter concerned is still before the court.

Mr. JACKMAN: I am not trying to do that so much as to get certain facts which have to do with the results of the C.N. system. They have certain

advantages on some parts of the system and it would be interesting to know how extensive they are.

Mr. VAUGHAN: I do not think, taking it all in all, that we have any advantage over any other system. Some of our competitors have exemptions in the west similar to what we have down east.

Mr. JACKMAN: Have you not got certain exemptions in the west also?

Mr. VAUGHAN: Not to the same extent, on account of their charter they have specific exemptions. We do not want to withhold any information, but I do think it might prejudice the case which is now before the courts if we discuss the matter here.

Mr. JACKMAN: I had no intention of doing that. I would like to have the information if it were available. It is hard for me to see how it could in any way prejudice the case which is now before the courts down there. All I want is the mere fact of the value of the properties you have in that category down in the maritimes.

Hon. Mr. CHEVRIER: Are we not bound by the rules of the House and of the committee? I do not want to appear to be curtailing discussion on it, but it is a clear rule of the House by which this committee is bound that when a matter is before the courts it should not be discussed here.

Mr. JACKMAN: I am not asking for a discussion of the whole matter. I am asking for a simple bit of information which apparently is public property already.

Hon. Mr. CHEVRIER: Well, there has been no attempt to stop you getting any information or to answer any questions; in fact, they have practically all been answered until you got to that one. It strikes me that there is a valid objection to answering it and I would think it should not be pressed.

Mr. JACKMAN: Perhaps we can defer it until the next time and maybe then we will have the decision of the court.

Hon. Mr. CHEVRIER: I think you should have it then.

Mr. VAUGHAN: Another question was asked by Mr. Hazen. He asked for a breakdown of the $2,168,000 spent under the heading of injuries to persons. The answer is, to the public, $172,927, and to employees, $1,995,000. There was another question asked, I think, by Mr. Nicholson, as to the cost of the oriental and European organizations. The answer is the cost of conducting our business there, that is, salaries, offices and all incidental expenses, was $108,796; that was for the European organization, and the Orient office cost $8,740.

The CHAIRMAN: Were those all the questions which were asked? Gentlemen, we were at page 19 when we adjourned.

Mr. HAZEN: I asked a question yesterday and I am not quite clear about the answer. I asked if the eight hotels operated by the company have earned enough to pay interest on the amount of capital invested. Do I understand the answer was that they did not earn enough, is that right? I had in mind the hotel here, surely it earns enough to pay interest on the investment?

Mr. COOPER: Are you speaking of 1946?

Mr. HAZEN: I was speaking in broad terms, yesterday. I asked if the eight hotels owned by the railway earned enough to pay interest on the capital invested. I understood the answer was that they did not.

Mr. COOPER: No, the answer was that they did. In 1946, our net operating income was $1,102,000 and I said we had $27,000,000 invested in hotels. Taking that amount at 3 per cent it would give us $810,000, so that if from $1,102,000, you deduct $810,000 for interest, you see that the hotels earned their interest.

Mr. HAZEN: **That was in 1946?**

Hon. Mr. CHEVRIER: Was the position the same in 1945, 1944 and 1943?

Mr. COOPER: In 1945, the hotels earned a little more than they did in 1946. I have not the 1944 figures here, but in answer to a question from Mr. Nicholson, we undertook to prepare a statement of hotel results from 1937 forward. That statement is in the course of preparation and possibly will be ready tomorrow.

Mr. HAZEN: That will give the answer?

Mr. COOPER: Yes.

The CHAIRMAN: Very well, gentlemen, what about page 19 which we were considering at the noon adjournment. It concerns funded debts, principal and interest. Have you any questions on that?

Mr. NICHOLSON: Nearly every year the president has made some comment on the burden imposed on the company by fixed charges. I wonder if he could report whether any progress has been made with a view to having the government relieve the railway of some of this burden? I think in view of the fact representations have been made to get relief from the public in the way of increased freight rates, some adjustment should be made in the capital structure.

Mr. VAUGHAN: I made quite a lengthy statement on that last year, as you will recall. There has not been any change in the situation since that time. I do not think I can say anything more on the subject. We are still carrying on negotiations with the Department of Finance, but we have not reached any conclusions as yet.

Mr. NICHOLSON: I wonder if the minister has any comment to make?

Hon. Mr. CHEVRIER: I can substantiate that by saying the government has been considering and is sitll considering the very broad question of fixed charges on the Canadian National Railways. It is a question which involves many things and it is not one easy of solution or decision. There has been no final decision on it and, while I should like to be able to encourage the honourable member as to what the decision may be, I am afraid, at the moment, all I can say is that it is being carefully looked into.

Mr. JACKMAN: Mr. Chairman, I noticed with regard to that subject, the auditor's report also contains a statement pointing out the ratio of fixed charges to operating revenue was 11·3 per cent. This was relatively high. I suppose that that ratio was very much higher in the pre-war years?

Mr. COOPER: Oh yes, in 1939, for example, it was 26·24 per cent.

Hon. Mr. CHEVRIER: As compared to 16·76 for the Canadian Pacific.

Mr. COOPER: And as compared with 5 per cent for the class 1 roads in the United States.

Mr. JACKMAN: It has been declining?

Mr. VAUGHAN: The ratio has not been declining.

Mr. JACKMAN: Have you a statement giving the ratio for the Canadian Pacific and similar lines in the United States?

Mr. COOPER: In 1945, the Pennsylvania was 7·8; the New York Central was 6·7; the Southern Pacific 4·4; the Santa Fe 1·7; the Union Pacific, 2·8; the B & O, 4·8; then, the class 1 roads as a group, 5·8 per cent. The Canadian Pacific was 6·1 per cent and the Canadian National 11·3 per cent.

The roads which I mentioned are the large roads with which it is reasonable to compare the Canadian National Railways in a broad way. You can see that the ratio of our fixed charges to revenue is approximately twice that for any other comparable road.

Mr. NICHOLSON: What was the Canadian Pacific figure again?

Mr. COOPER: 6·16 per cent.

88477—4½

Mr. JACKMAN: Has the ratio on other railways, that is, on fixed charges to operating revenue, been declining to anything like the same degree as the Canadian National's?

Mr. COOPER: Well, Mr. Jackman, under war traffic conditions where railway revenues doubled, you see, obviously the relation of fixed charges to revenue—

Mr. JACKMAN: But it is, relatively, comparing your railroad to the other lines?

Mr. COOPER: I do not think so at all.

Mr. JACKMAN: They have all gone down very substantially?

Mr. COOPER: I think we were a little further out of proportion than we were in 1939.

Mr. JACKMAN: You mean if they were 8 and you were 16, you are 8 now and they are less than 4?

Mr. COOPER: In 1929, the class 1 roads were 15 and we were 26. They are 5·8 now, and we are 11·3. We are now about twice but we were not twice in 1939. We were as 26 is to 15, now we are as 11 is to 5; the disproportionate charge on the Canadian National has been increased rather than diminished.

Mr. JACKMAN: The problem of your relatively bad ratio has been greatly lessened with the tremendous increase in volume. As Mr. Vaughan said yesterday, $300,000,000 of gross operating revenue might have been sufficient to keep the railroad in a sound financial position, but now it takes $400,000,000, so it is the bondholder who is taking the loss in this matter because you are handling far more revenue and the whole National income is higher.

Mr. COOPER: I would not say that because you must—

Mr. VAUGHAN: Wages and material have gone up so we are in exactly the same position, Mr. Jackman, as we were before.

Mr. COOPER: Our operating ratio has increased and the margin between net operating revenue and fixed charges has shrunk.

Mr. JACKMAN: I know, you have not very much margin.

Mr. COOPER: Our operating ratio is 89 per cent. Taking 11 per cent as available, we do not have enough left over from operating to pay fixed charges. We had a deficit of $9,000,000.

Mr. NICHOLSON: I wonder if Mr. Vaughan could outline briefly just what is the most recent proposal you have made to the government about giving you relief?

Mr. VAUGHAN: The proposal as made to the government was that they accept from us income bonds to take the place of the vested securities, that is the debenture stocks of the C.N.R., G.T.R. and G.T.P. vested in Great Britain during the war. That is to say the interest would be paid when earned to the extent that interest was earned.

Mr. REID: Has any valuation ever been made of the physical assets of the company, the entire physical assets? Has a valuation been made? That is to say if it was at 3 per cent what would the interest be per annum? I raise the question because the statement was made that if all the overhead and financial liability of the C.N.R. were withdrawn, if they did not have that overhead to meet as a railroad company, they could make ends meet. I am interested in knowing what the actual physical valuation at 3 per cent is? What would the interest charges be per annum?

Mr. VAUGHAN: You mean what the interest on the valuation at 3 per cent would amount to?

Mr. COOPER: If we had to pay our fixed charges at their present rates and in addition had to pay 3 per cent on the shareholders' capital, in 1946 we would have had a deficit of $40,000,000.

Mr. REID: I am not speaking of the shareholders' capital. There are certain figures which go before the board of transport commissioners whenever they want an increase, and usually they are asked what total amounts of money have been spent by the company. The share capital would not probably have any relation to what has been spent by the company, but I am anxious to know if any survey has ever been made as to the value of the physical assets of the company? Surely that has been done over the years? What would happen if someone in the world would be bold enough to come along and say "we will buy the entire concern"? Take a hypothetical case. The first thing that would happen would be to find out what the physical assets were worth, that is in land and everything else?

Mr. VAUGHAN: I think the first thing you would do would be to find out what the railway could earn. You would not want to know what the railway cost but what it could return on the investment if you were to buy the property. That is the first thing you would want to find out. You would want to know what interest could be earned on that investment.

Mr. REID: I am not that smart. I would be asking what the thing was worth and I would want a practical figure. If I were buying a building that is what I would want.

Mr. VAUGHAN: No, you would be interested in the value more than in the cost.

Mr. REID: Yes, that is what I would want to know, I would want to know what the building cost and what it is valued at today.

Mr. VAUGHAN: If you were buying an apartment building you would sit down and say "I will make an offer on that apartment building based on say an earning of 4 per cent". That might have absolutely no relation to the cost of the building at all. It might be only for half the cost.

Mr. REID: I have been in the House of Commons eighteen years and every year I have heard it stated that if you just removed all this overhead and put the C.N.R. on the same basis as the C.P.R. it would make a good showing. I would like to know if it would make a good showing if you cleared it of all this capitalization which has been endured through the years.

Mr. VAUGHAN: I think the only proper comparison is with other railroads with which we compete, those having fixed charges on a comparable basis. We all know if these properties had not been taken over by the government they would have gone through receiver's hands and the fixed charges would have been scaled down very materially just as the Soo line of the Canadian Pacific was dealt with.

Mr. REID: We have a railroad in British Columbia which I would like to sell, the P. and G., and I venture if you went in to buy it you would want to know what the property was worth.

Mr. VAUGHAN: I would want to know what it could earn, but I would not pay much attention to what had been spent on it.

Mr. REID: You would be very interested in the financial statement, and you would not say "I am not interested in what is invested".

Mr. VAUGHAN: I would be interested in what the property could earn.

Mr. REID: What it is able to earn.

Mr. NICHOLSON: If your fixed charges were the same as the C.P.R. what would have been the difference in 1946 operations?

Mr. Cooper: I will have to work that out for you. I think I have it for 1945.

Mr. Vaughan: We have the fixed charges of the C.P.R.

Hon. Mr. Chevrier: It would have meant the difference between a surplus and a deficit.

Mr. Warren: In the meantime, to go back to Mr. Reid's point. I think it is very interesting. The picture we have is that the C.N. railways are pledged to pay more than the system can bear and if that were not true they would be able to make a good showing. I can understand why Mr. Reid wants that cleared up.

Mr. Vaughan: That is the point we are making. If the fixed charges were scaled down to a point where the railway could pay interest it would be fine. Coupled with that is always the fact, it applies to the C.P.R. as well as ourselves, we have got to have adequate freight rates to enable us to pay our way.

Mr. Warren: I have never been on this committee before but it occurred to me that a favourite piece of propaganda has been that we were paying in taxes $1,000,000 a week, $55,000,000 a year at one time.

Mr. Vaughan: That was a good many years ago.

Mr. Warren: Yes, and I am very glad and I am very proud to listen to the discussion on the setup now and hear that the system is getting to the position where they had a surplus last year.

Hon. Mr. Chevrier: I think there is one thing that has been forgotten, and that is when the Canadian National railway took over the roads and operation of the roads on the system, they did not go into liquidation such as the roads in the United States did and they had to take over tremendous debt. Mr. Cooper probably knows what it was, but the interest charges on that debt has amounted to over $100,000,000. It has been $161,000,000 over the years. That is why I take it the president answers the question Mr. Reid asks by saying it is not so much the money that has gone into the road as what it is able to earn that counts.

Mr. Reid: Coming back to that, surely with all the accounting systems they have, and I understand they have a very splendid one, surely some estimate has been made as to the physical value.

Hon. Mr. Chevrier: If you will look at page 10 you will see under the investment statement, a brokendown statement, what the physical assets are.

Mr. Nicholson: Attacking the problem from another angle, if one were to assume you had the same fixed charges since Canadian National was incorporated as your competitor, the Canadian Pacific railway has, you would not have had these large deficits built up in the 1930's. I think you have always paid operating expenses. I imagine since you were first organized there would have been the same return on the capital if you had similar fixed charges to those of the C.P.R.

Hon. Mr. Chevrier: How did you put that again?

Mr. Vaughan: The fixed charges of the C.P.R. last year according to their annual report were $18,000,000.

Hon. Mr. Chevrier: And what were those of the Canadian National?

Mr. Vaughan: Our fixed charges were $44,000,000.

Hon. Mr. Chevrier: That is including government loans?

Mr. Jackman: But you are the largest railway, the largest in the world.

Mr. Vaughan: Yes, but we have more unprofitable territory to operate in and much higher interest charges.

Mr. Jackman: Just looking at the balance sheet, would you not say, on the basis of replacement, and I would not want to hold you to this statement,

there is no padding on the asset side and we have nothing omitted on the liability side, there is actually $2,000,000 worth of replacement value at today's level.

Mr. VAUGHAN: Those figures of course represent the cost of the property.

Mr. JACKMAN: But there is no water in it as you know it, the way it comes to us today? It may be an unwise expenditure but it is not watered?

Mr. VAUGHAN: All I can say to that is that when these operations were taken over, such as the Grand Trunk, Grand Trunk Pacific and Canadian Northern Railway, there was not one of them earning its interest charges.

Mr. NICHOLSON: Has Mr. Cooper the information I was asking for?

Mr. COOPER: These figures show what their results would have been if their fixed charges in relation to revenue had been on our scale. The Pennsylvania, which in 1945 had a surplus of $49,000,000, would have had a surplus of $16,000,-000. That is if their fixed charges had been in the same relation to gross revenues that they are on the Canadian National. The New York Central, which had a surplus of $24,000,000, would have had a deficit of $5,000,000. The Southern Pacific, which had a surplus of $33,000,000 would have reported a deficit of $7,000,000. The Santa Fe, which reported a surplus of $29,000,000, would have had a deficit of $21,000,000. The Union Pacific, which had a surplus of $33,000,000, on our basis would have reported a deficit of $8,000,000. The B & O, which reported a surplus of $15,000,000, would have reported a deficit of $7,000,000. The class I roads as a whole, which reported a surplus of $450,000,000, would have reported a deficit of $32,000,000 if their fixed charges had been in the same relation as ours. The Canadian Pacific, which reported a surplus of $31,000,000 in 1945, would have had a surplus of $15,000,000.

Mr. NICHOLSON: In view of the fact that the Minister of Finance reported a surplus of about $1,000,000 a day last year I think the government should give favourable consideration to your representations to extend some relief to bring your fixed charges in line with other similar railways.

Hon. Mr. CHEVRIER: I am hopeful they will.

Mr. REID: What would be the saving in interest charges per year if it were possible to call in all the shares and issue them at the regular rate of interest prevailing which is around 2½ to 3 per cent? What saving would there be?

Mr. VAUGHAN: What is our average?

Mr. COOPER: Our average interest rate in 1946 was 4·24. That is on our debt to the public. If you include amortization of discount and things of that sort it was 4½ per cent. If you put it on a 3 per cent basis the interest would be scaled down just one-third and instead of paying $23,000,000 we would have been paying about $15,000,000 in so far as interest to the public is concerned.

Mr. REID: Quite a saving.

Mr. COOPER: Yes.

Mr. JACKMAN: If your request last year to have the government exchange repatriated securities for an income debenture had been acceptable what difference would that have made in your deficit?

Mr. COOPER: It would have wiped it out. The interest on the repatriated securities was $13,698,000, and our deficit was $8,961,000.

Mr. JACKMAN: It would have put you in the clear for last year.

Mr. COOPER: We would have had a surplus of $4,700,000.

Mr. JACKMAN: I will not draw the deduction that in that case you would not have had to join in the application for an increase in freight rates.

Mr. COOPER: We would not have had to get an appropriation of parliament to pay the government the interest we owe.

Mr. JACKMAN: You are asking me a question. I asked you one.

Mr. COOPER: No, sir.

Mr. VAUGHAN: In answer to that, I would say we would have had to join in the application just the same because our expenses this year are so much higher than they were last year.

Mr. JACKMAN: Well, that is a very broad and large question.

Mr. REID: Does the term "guaranteed gold bonds" mean anything as against "guaranteed bonds"? Is it just a financial term?

Mr. COOPER: I do not think it has any significance today. Possibly it had at the time those bonds were issued when Canada was on the gold standard.

Mr. WARREN: This morning there was some conversation that brought up the question of the Canadian National as a service in connection with parlour cars. Yesterday the question was brought up from another angle. We have lines running from Arnprior to Eganville, and from Golden Lake to Pembroke, that the C.N.R. have been trying to get rid of because they do not pay. The residents of North Renfrew have always been able to argue the matter on the basis of service to the people. I can easily understand that a lot of these expenditures are actually for a service and well worth while even if we do go in debt a bit on the Canadian National System.

The CHAIRMAN: Have you discussed that problem enough to turn over another page? We will turn to page 20, Investments in affiliated companies.

INVESTMENTS IN AFFILIATED COMPANIES

COMPANY	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Owned by Can. Nat. System Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000.00	$ 240,000.00	$ 240,000.00
Canadian Government Merchant Marine, Limited	800.00	800.00	800.00
Central Vermont Transportation Company	200,000.00	50,000.00	20,000.00
Chicago & Western Indiana Railroad Company	5,000,000.00	1,000,000.00	1,000,000.00
The Detroit & Toledo Shore Line Railroad Company	3,000,000.00	1,500,000.00	1,500,000.00
Detroit Terminal Railroad Company	2,000,000.00	1,000,000.00	1,000,000.00
Northern Alberta Railways Company (representing amount paid up, i.e. 10%)	625,000.00	312,500.00	312,500.00
The Ontario Car Ferry Company (Limited)	500,000.00	250,000.00	179,007.53
The Public Markets, Limited	1,150,000.00	575,000.00	575,000.00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600.00
The Toronto Terminals Railway Company	500,000.00	250,000.00	250,000.00
The Toledo Terminal Railroad Company	4,000,000.00	387,200.00	387,200.00
Trans-Canada Air Lines (representing amount paid up, i.e. 82·5%)	6,600,000.00	6,600,000.00	6,600,000.00
Vancouver Hotel Company Limited	150,000.00	75,000.00	75,000.00
			$12,140,107.53
BONDS:			
Northern Alberta Railways Co. 1st Mortgage Bonds	$31,530,000.00	$15,765,000.00	$15,765,000.00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,810,000.00	12,905,000.00	12,905,000.00
			$28,670,000.00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 2,482,544.01
The Railroad Credit Corporation			5,555.86
Railway Express Agency, Incorporated			155,077.87
Vancouver Hotel Company Limited			10,207.89
			$ 2,653,385.63
			$43,463,493.16

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

At 31st December, 1946, Canadian National Railway Company had subscribed for $8,000,000 of the Capital Stock of the Air Lines of which $6,600,000 has been called and paid in.

NORTHERN ALBERTA RAILWAYS COMPANY:

At 31st December, 1946, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company of which $312,500 has been called and paid in.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4 per cent—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½ per cent—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68 per cent.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4 per cent bonds due 1952 and the amounts outstanding at 31st December, 1946, are:—

Issued for "common" property	$39,973,019.39
Issued for "exclusive" property	252,535.36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼ per cent Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1946, is $17,198,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

Mr. REID: Why does the Canadian National Railway invest in Trans-Canada Air Lines? Trans-Canada Air Lines had a deficit last year. What was the object of the investment by the C.N.R. of $8,000,000 in stock?

Hon. Mr. CHEVRIER: The Canadian National Railway own T.C.A. They own all the shares.

Mr. JACKMAN: On that point why did the C.N.R. go into the T.C.A.? I understand your competitor turned a somewhat similar offer down, perhaps to their regret, but was that forced on you by the government, or was that something the board of directors of the C.N.R. wanted to do?

Mr. VAUGHAN: As I recall it when Trans-Canada Air Lines was formed the government was exceedingly anxious that there should be an air line in Canada worthy of the importance of the country. They came to both the Canadian Pacific and the Canadian National Railways and offered each an equal interest in it. My understanding is that the C.P.R. did not take it because they could not control it. Many times since they would like to have had an interest in Trans-Canada Air Lines.

Mr. NICHOLSON: What sort of price would they be likely to offer if they were to get a monopoly of it now?

Mr. VAUGHAN: I could not say that, but Trans-Canada Air Lines has been a very successful operation. It is true they lost money last year, but that was not uncommon with air lines on the North American continent. I think you will get the full story in connection with Trans-Canada Air Lines in a few days when Mr. Symington comes before you.

Mr. JACKMAN: As far as its relation to the C.N.R. system is concerned did you want to go into it or were you the willing work horse to take it on?

Mr. VAUGHAN: I think our people were quite willing to go into it. They felt that air lines were a coming method of transportation, and as the Canadian National Railway was in the transportation business it was felt that it would be better for us to control the air lines than to have a competing air line.

Mr. JACKMAN: That is the reason that the I.C.C. in the United States does not allow railways to go into it, because they do not want one form of transportation to control another form of alternative service.

Mr. COOPER: It is not I.C.C., it is the C.A.B.

Mr. VAUGHAN: That was a government ruling. That was not the I.C.C.

Mr. JACKMAN: As a matter of fact, is it quite fair to say that the C.P.R. did not go into it because they could not control it? Was it not a fact that had there been this joint operation or joint ownership the C.N.R. would have had so many directors, the C.P.R. would have had so many, and the Department of Transport, or the government, would have had so many, so that the Department of Transport and the C.N.R. being one and the same at times—

Hon. Mr. CHEVRIER: Not always.

Mr. JACKMAN: —would have control, and the other party would be in the minority. Is that not somewhat close to the facts?

Mr. VAUGHAN: As a matter of fact, I cannot tell you the whole story. It was not handled by me. I had nothing to do with it at the time.

Mr. JACKMAN: You cannot say definitely the C.P.R. turned it down because they could not control. Perhaps they turned it down because they could not be an equal partner in the enterprise.

Mr. VAUGHAN: I understand they would have been an equal partner with the Canadian National Railways.

Mr. JACKMAN: There might have been a third party.

Mr. VAUGHAN: There might have been. I have not got all the facts before me now.

Hon. Mr. CHEVRIER: You can get all that information from Mr. Symington next week or the week after when he comes here.

Mr. VAUGHAN: Mr. Symington will be prepared to answer any questions you have to ask in connection with the T.C.A.

Mr. NICHOLSON: With regard to the Northern Alberta Railway, how did the operation turn out last year?

Mr. VAUGHAN: There was a substantial loss. Mr. Cooper has the figures in that regard.

Mr. COOPER: The Northern Alberta Railway's deficit absorbed by the Canadian National Railway Company in 1946 amounted to $495,000; and as that represents one-half of their deficit they must have lost $990,000.

Mr. NICHOLSON: How many years have you operated surplus there?

Mr. COOPER: Three or four years of the war were profitable years for the Northern Alberta Railway.

Mr. NICHOLSON: Some of the people living up there argue that if they had their connection with the west coast it would operate on a profitable basis; have you studied that problem?

Hon. Mr. CHEVRIER: That is the road from Dawson Creek to Prince George?

Mr. NICHOLSON: Yes. What are the prospects of completing that link?

Mr. VAUGHAN: That question has been studied many times. We have not been able to discover any justification as yet for spending so large a sum of

money which would be necessary to build that line from the Peace River country down to Prince George.

Hon. Mr. Chevrier: Have you seen the report of the British Columbia legislature on it?

Mr. Reid: I wish to refer to the investments in various United States companies, on page 20. Will those investments have any interest retirement value?

Mr. Cooper: That information was given to the committee this morning.

Mr. Reid: Oh, well, then you need not answer it now.

Mr. Jackman: Speaking generally, with regard to the talk of the line between the Peace River country and Prince George, would the traffic then flow to Vancouver on that line?

Mr. Vaughan: Yes, but there is a good deal of the grain from the Peace River country today that goes there because it goes down to Edmonton and then over our line to the Pacific coast. I do not think the people up there are handicapped to any extent.

Hon. Mr. Chevrier: There has been discussion with regard to a line from Dawson Creek to Prince George, the Pine Pass and the Peace River Pass, and other routes.

Mr. Vaughan: That would involve the expenditure of a large sum of money on the P.G.E., because they have no connection from Quesnel to Prince George nor from Clinton down to our main line or the main line of the C.P.R.

Mr. Nicholson: Do you remember offhand how many miles it is from Dawson Creek to Prince George?

Mr. Vaughan: Several hundred miles; it would be 400 or 500 miles.

Mr. Jackman: Is that the black line on your map—the P.G.E.?

Hon. Mr. Chevrier: There is nothing shown on your map. That is the black line. There were two or three projects, one from Dawson Creek to Hudson Hope, and then there was this other one through Pine Pass and another through the Peace River Pass.

Mr. Jackman: Is that a matter of any immediate concern—that is the development of that line—or are you waiting for a large population to go into the Peace River district?

Mr. Vaughan: The Peace River people, of course, are constantly pushing for the construction of that line because they feel it would give them a direct outlet to the Pacific coast. It would involve the completion of the P.G.E. and the expenditure of a large amount of money. They are able to get their grain out to the Pacific coast through Edmonton.

Mr. Jackman: Most of the traffic arising in the Peace River country flows to the Pacific coast, does it?

Mr. Vaughan: No, there is a good deal flows east from Edmonton. Today the grain that originates there is directed to destination by the Wheat Board.

Mr. Jackman: If the normal channel of movement were followed would most of it go to the Pacific coast?

Mr. Vaughan: That would depend entirely on the market for grain and how the elevator companies which owned the grain desired to move it.

Mr. Jackman: But if shipping is free—and I presume it is getting freer all the time—is that the normal movement, to the Pacific coast rather than the long rail haul across the country?

Mr. Vaughan: Yes, there is a substantial movement, mostly from the province of Alberta to the Pacific coast of grain.

Mr. Reid: May I suggest to you that the company give some consideration to the valuable piece of property you have lying on your branch line between

the city of New Westminster and Vancouver, along the north arm of the Fraser river? The Vancouver industries are coming along until that is a great industrial area in British Columbia. Under a scheme in co-operation with the Department of Public Works there is no reason why that land could not be filled in through dredging sand in the river and it would make a very valuable industrial centre which would bring returns as well to the company. It is on that branch line. That land is becoming valuable, but it would be of very little use unless it is levelled and filled in from the river. I am asking you to give that matter consideration.

Mr. VAUGHAN: We will give it consideration. We have a substantial amount of land available for industrial purposes in New Westminster.

Mr. REID: It cannot be used until it is filled in. It can be filled in and a double purpose can be served of dredging the river and putting that sand into the fill, and you have a valuable industrial property which will bring a return by way of rentals an dalso a return to the railway.

Mr. VAUGHAN: I am not sure that I understand which piece of property you mean.

Mr. REID: You know the branch line that goes along the north arm to New Westminster?

Mr. WALTON: Lulu Island?

Mr. REID: Yes. It follows the north arm for some distance. The land has been low-lying for several years and it cannot be used, but most property owners and industrial concerns get sand pumped from the river into it. The C.N.R. has done nothing with that property, and yet they have a branch line there. The whole area is industrialized. Lumber and other materials have been shipped from the north arm in large quantities.

Mr. WALTON: We had a request from our western region officials. I do not know whether that is the same piece of land that Mr. Reid speaks of; it is in the bend of the river. Material could be deposited there when dredging is being done, and we have had that up with the Department of Public Works. I think I am speaking of the same place.

Mr. REID: Would you please take note of it again?

Mr. WALTON: Yes.

Mr. JACKMAN: How soon would you think consideration might be given to the development of that Peace River railway—five, ten, fifteen years; or is it too far in the future?

Mr. VAUGHAN: It is too far in the future. It would depend entirely upon the need for a railway and whether there were minerals and other things developed along the line of the proposed route which would produce sufficient traffic to make the line pay.

Mr. JACKMAN: It is very distant?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Is that all the discussion on page 20; what about page 21?

Mr. LOCKHART: What is the actual position of the Toronto Terminals? Has any information been given? What is the financial position there?

Mr. VAUGHAN: It was not expected that there would be any return. That was mentioned this morning. The railway is owned jointly by the two railways. We get 5 per cent on the bonds. That is all.

Mr. LOCKHART: There has been a deficit, has there?

Mr. COOPER: The Toronto terminal is operated as a joint facility with the Canadian Pacific. The operating costs of the joint facility are divided between the two companies on a wheelage basis and the result is that the operation breaks even. The two railways pay sufficient to balance the account.

Mr. LOCKHART: In other words it is fifty-fifty?

Mr. COOPER: The wheelage is not divided fifty-fifty. I think the Canadian National wheelage is more like 58 or 60 per cent.

Mr. VAUGHAN: But the capital charge is divided 50-50.

The CHAIRMAN: Are those all the questions on 20? Any questions you wish to ask on 21, companies comprising the Canadian National Railways system?

Carried.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000.00
2	The Canadian National Railways Securities Trust	380,403,604.43
		$398,403,604.43

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	NAME OF ISSUING COMPANY	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340.00	$ 111,840.00
4	The Bay of Quinte Railway Company	22	1,395,000.00	
5	The Bessemer and Barry's Bay Railway Company	22	125,000.00	
6	*Brooksay Realty Company	28	2,000.00	
7	The Canadian Express Company	1	1,768,800.00	
8	Canadian National Electric Railways	22	1,750,000.00	
9	Canadian National Express Company	23	1,000,000.00	
10	Canadian National Land Settlement Association	1	—	
11	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573.92	
12	*Canadian National Realties, Limited	22	40,000.00	
13	Canadian National Rolling Stock Limited	1	50,000.00	
14	*Canadian National Steamship Company, Limited	43	50,000.00	
15	Canadian National Telegraph Company	22	500,000.00	
16	*Canadian National Transportation, Limited	1	500.00	
17	The Canadian Northern Alberta Railway Company	22	3,000,000.00	
18	Canadian Northern Manitoba Railway Company	22	250,000.00	
19	The Canadian Northern Ontario Railway Company	22	10,000,000.00	
20	Canadian Northern Pacific Railway Company	22	25,000,000.00	
21	The Canadian Northern Quebec Railway Company	22	9,550,000.00	3,849,200.00
22	The Canadian Northern Railway Company	1	18,000,000.00	
23	The Canadian Northern Railway Express Company, Limited	22	1,000,000.00	
24	Canadian Northern Steamships, Limited	22	2,000,000.00	
25	Canadian Northern System Terminals (Limited)	22	2,000,000.00	
26	Canadian Northern Western Railway Company	22	2,000,000.00	
27	Cannar Oils Limited	1	100.00	
28	*The Centmont Corporation	30	176,400.00	
29	The Central Ontario Railway	22	3,331,000.00	
30	Central Vermont Railway, Inc.	1	10,000,000.00	
31	Central Vermont Terminal, Inc.	30	5,000.00	
32	*Central Vermont Transit Corporation	28	5,000.00	
33	*Central Vermont Warehouse, Inc.	28	5,000.00	
34	The Champlain and St. Lawrence Railroad Company	1	50,000.00	
35	*Consolidated Land Corporation	46	64,000.00	
36	*The Dalhousie Navigation Company, Limited	22	50,000.00	

Capital Stocks Owned by System or Public—*Con.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
37	Duluth, Rainy Lake & Winnipeg Railway Company	39	2,000,000.00	
38	Duluth, Winnipeg and Pacific Railroad Company	39	100,000.00	
39	Duluth, Winnipeg and Pacific Railway Company	22	3,100,000.00	
40	*Grand Trunk-Milwaukee Car Ferry Company	46	200,000.00	
41	The Grand Trunk Pacific Branch Lines Company	43	200,000.00	
42	*The Grand Trunk Pacific Development Company, Limited	43	3,000,000.00	
43	The Grand Trunk Pacific Railway Company	1	24,940,200.00	
44	The Grand Trunk Pacific Saskatchewan Railway Company	43	20,000.00	
45	*Grand Trunk Pacific Terminal Elevator Company (Limited)	43	501,000.00	
46	Grand Trunk Western Railroad Company (Common)	1	20,000,000.00	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000.00	
47	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	15	373,625.00	6,925.00
48	The Halifax and South Western Railway Company	22	1,000,000.00	
49	*Industrial Land Company	46	1,000.00	
50	International Bridge Company	1	1,500,000.00	
51	The James Bay and Eastern Railway Company	22	125,000.00	
	Carried Forward		$183,389,538.92	$ 3,967,965.00

The Chairman: Let us go to page 22? Carried.

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
	Brought Forward		$183,389,538.92	$ 3,967,965.00
52	The Lake Superior Terminals Company Limited	22	500,000.00	
53	The Maganetawan River Railway Company	1	30,000.00	
54	Manitoba Northern Railway Company	1	500,000.00	
55	The Marmora Railway and Mining Company	22	128,600.00	
56	The Minnesota and Manitoba Railroad Company	22	400,000.00	
57	The Minnesota and Ontario Bridge Company	22	100,000.00	
58	Montreal and Province Line Railway Company	28	1,000,000.00	
59	*Montreal and Southern Counties Railway Company	1	500,000.00	165,600.00
60	The Montreal and Vermont Junction Railway Company	30	197,300.00	
61	*Montreal Fruit & Produce Terminal Company, Limited	1	500.00	
62	*The Montreal Stock Yards Company	1	350,000.00	
63	*The Montreal Warehousing Company	1	236,000.00	12,240.00
64	Mount Royal Tunnel and Terminal Company, Limited	22	5,000,000.00	
65	Muskegon Railway and Navigation Company	46	161,293.00	
66	*National Terminals of Canada, Limited	1	2,500.00	
67	National Transcontinental Railway Branch Lines Company	1	500.00	
68	*The Niagara, St. Catharines and Toronto Railway Company	22	925,000.00	
69	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	68	100,000.00	
70	*The Oshawa Railway Company	1	40,000.00	
71	The Ottawa Terminals Railway Company	1	250,000.00	
72	The Pembroke Southern Railway Company	1	107,800.00	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Con.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
73	*Prince Rupert, Limited	1	10,000.00	
74	The Quebec and Lake St. John Railway Company	22	4,508,300.00	489,160.00
75	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	22	201,000.00	
76	*Rail & River Coal Company	1	2,000,000.00	
77	St. Boniface Western Land Company	22	250,000.00	
78	The St. Charles and Huron River Railway Company	22	1,000.00	
79	St. Clair Tunnel Company	1	700,000.00	
80	*The Thousand Islands Railway Company	1	60,000.00	
81	†Trans-Canada Air Lines	1	6,600,000.00	
82	The United States and Canada Rail Road Company	1	219,400.00	475.00
83	Vermont and Province Line Railroad Company	1	200,000.00	
84	The Winnipeg Land Company Limited	22	100,000.00	
			$208,768,731.92	$ 4,635,440.00

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

†Treated as an Affiliated Company.

The CHAIRMAN: We come now to railway equipment on page 24.

Mr. McLURE: You should not miss page 23.

Mr. REID: Mr. President, the new bedroom car, what would such a car cost?

Mr. VAUGHAN: A new bedroom car, today, would cost approximately $100,000.

Mr. REID: Is that your own design?

Mr. VAUGHAN: To some extent it is our own design. We have taken the best from the designs of other companies in the United States and have modified them to suit our own conditions.

Mr. REID: I think it is a splendid car.

Mr. JACKMAN: Has the manufacture of rolling stock equipment, including locomotives for foreign countries, using Canadian credits to pay for them, interfered very much with your own requirements?

Mr. VAUGHAN: Well, I think during the war, perhaps it did. I do not think it is doing so now.

Mr. McLURE: When I was referring to this page 23, I was looking at the new Canadian National day coach. I was just wondering how long it would be before the line from Sackville to Tormentine might have a coach like that. I mention that for this reason, passengers coming from the United States or from Montreal, Toronto and other points, come down on a beautiful train, the Maritime or the Ocean Limited. These people travel in wonderful accommodation right through to Sackville. They get off at that point and, presumably, they are going to Prince Edward Island. They look for the Island train and, I do not know whether Mr. Vaughan has ever seen that Island train—

Mr. VAUGHAN: I have seen it many times.

Mr. McLURE: It is a terrible, a disgraceful advertisement both for the road and, more so, for our province, when they have to get off these beautiful trains and then get into what is really a cattle car. I know that from travelling many times, so I know what I am going to meet.

Mr. VAUGHAN: Of course, you can get a sleeping car right from Montreal.

Mr. McLURE: Once we had that sleeping car, yes, but we should have an additional coach, something like that, or even if you gave us one of the cast off

ones you have up here instead of these which we have down there. They are really terrible.

Mr. VAUGHAN: We are trying, just as fast as we can, to rehabilitate our equipment. When that is done, we do hope to replace some of these types of cars which we know are not satisfactory. We simply have not got the equipment at the present time to do it. We are working towards that end.

Mr. McLURE: Mr. Lapointe said yesterday he was buying up all the fifty year old cars. He might come down and buy some of these.

The CHAIRMAN: Are there any more questions on page 24, railway equipment? Carried.

RAILWAY EQUIPMENT

	December 31, 1945	Additions During Year	Retirements During Year	Conversions During Year Added	Conversions During Year Retired	December 31, 1946
LOCOMOTIVES						
Passenger—Freight	1,975		7		1	1,967
Switching	523		2	1		522
Electric	24					24
Oil Electric	37	16	3			50
Total	2,559	16	12	1	1	2,563
FREIGHT EQUIPMENT						
Box Cars	70,901	856	750	26	341	70,692
Flat Cars	5,373		29	1	33	5,312
Stock Cars	3,037		8			3,029
Coal Cars	15,661		94		5	15,562
Tank Cars	142		1			141
Refrigerator Cars	3,205	1	8			3,198
Caboose Cars	1,648		35			1,613
Other Cars in Freight Service	10		3	3		10
Total	99,977	857	928	30	379	99,557
PASSENGER EQUIPMENT						
Coach Cars	1,196		21		30	1,145
Combination Cars	270		4			266
Dining Cars	96					96
Colonist Cars	190		1			189
Parlor Cars	47			3		50
Café Cars	28					28
Sleeping Cars	302		3	1	2	298
Tourist Cars	46			1		47
Baggage and Express Cars	1,042	* 22	14			1,050
Postal Cars	49					49
Unit Cars	40		2		1	37
Other Cars in Passenger Service	65		1		6	58
Total	3,371	22	46	5	39	3,313
WORK EQUIPMENT						
Cars in Work Service	7,444	20	385	385	2	7,462
FLOATING EQUIPMENT						
Car Ferries	8					8
Barges	5					5
Tugs	4					4
Work	3					3

* Previously under lease from Arms-Yager Company.

The CHAIRMAN: Next is operated mileage on page 27.

Mr. JACKMAN: Just on the equipment, Mr. Vaughan, do you find in order to meet competition you have to be a little more, I will say, ultra modern, over there than you do in Canada and spend more money on rolling stock, passenger equipment particularly?

Mr. VAUGHAN: You are referring to our lines in the United States?

Mr. JACKMAN: Yes.

Mr. VAUGHAN: We have not done so as yet. We have good steel equipment over there the same as we have on our major lines in Canada. We have been considering the desirability of running streamlined trains between Detroit and Chicago where we have dense populations in both cities. We have not come to any conclusion as yet. Those new trains are very expensive. By the time you buy diesel engines and streamlined cars you have an expenditure of nearly 1½ million dollars in one train.

Mr. JACKMAN: Competition has not forced you to do so yet?

Mr. VAUGHAN: It has not forced us to do so yet, but it may.

Mr. WALTON: We have not yet, on the United States lines, anything which compares with the cars about which Mr. Reid has spoken.

Mr. MOORE: Has the Canadian National made any decision as between streamlined diesels and streamlined steam locomotives?

Mr. VAUGHAN: No, sir, that is something we are studying very carefully. We have, as you know, many diesel switching locomotives in service. We are purchasing more. We have, in Canada, at the present time, a couple of diesel road locomotives which we are testing. We will probably know, after we test those engines this summer, whether or not they will be suitable for any of our particular services.

Mr. MOORE: Have you had them on your continental runs yet?

Mr. VAUGHAN: Not as yet.

Mr. REID: May I call your attention to something which the Canadian Pacific is doing on the line between Kamloops and the coast. There is a place called Hell's Gate which is one of the wonders of the continent at which fish ladders have been established by the International Fisheries Commission. The Canadian Pacific has made that a regular stop. The people get off the train to look at them. We are beautifying this place to encourage tourists to visit the spot. The Canadian Pacific stops there but the Canadian National does not.

Mr. VAUGHAN: That is because our trains do not go through there in daylight.

Mr. REID: You have no local going through there, but the Canadian Pacific has a local?

Mr. VAUGHAN: That is the reason, we have no trains going through there in daylight.

The CHAIRMAN: Any further questions on statistics of rail line operations and operated mileage on pages 26 and 27?

Carried.

STATISTICS OF RAIL-LINE OPERATIONS

	1946	1945
TRAIN-MILES:		
Freight Service	41,817,432	43,381,957
Passenger Service	23,581,125	24,600,264
Total	65,398,557	67,982,221
Work Service	1,583,828	1,732,082
Total	66,982,385	69,714,303
LOCOMOTIVE-MILES:		
Freight Service	44,374,635	46,392,068
Passenger Service	23,380,822	24,382,258
Train Switching—Freight	3,797,979	3,659,667
—Passenger	118,597	104,120
Yard Switching Freight	15,339,794	15,247,844
—Passenger	1,647,359	1,474,192
Total	88,659,186	91,260,149
Work Service	2,154,186	2,402,612
Total	90,813,372	93,662,761

STATISTICS OF RAIL-LINE OPERATIONS—*Concluded*

	1946	1945
Car-Miles—Freight Service:		
Loaded Freight Cars	1,140,162,216	1,173,624,393
Empty Freight Cars	477,233,755	528,469,997
Passenger Coach and Combination Cars	6,605,024	6,956,586
Sleeping, Parlor and Observation Cars	308,517	313,716
Dining Cars	20,328	15,796
Other Cars	6,851,524	6,789,874
Caboose	41,314,017	42,490,621
Total	1,672,495,381	1,758,660,983
Car-Miles—Passenger Service:		
Loaded Freight Cars	213,046	386,155
Empty Freight Cars	29,557	162,865
Passenger Coach and Combination Cars	67,830,334	81,828,393
Sleeping, Parlor and Observation Cars	54,245,384	61,263,172
Dining Cars	9,189,041	11,440,316
Other Cars	70,863,420	69,802,421
Motor Unit Cars	890,569	972,725
Caboose	1,147,231	1,669,296
Total	204,408,582	227,525,343
Car-Miles—Total	1,876,903,963	1,986,186,326
Work Service	4,598,630	3,989,987
Total	1,881,502,593	1,990,176,313
Average Mileage of Road Operated	23,437·12	23,498·36
Freight Traffic:		
Tons carried—Revenue freight	78,950,008	79,941,296
Tons carried one mile—Revenue freight	30,811,920,078	34,599,518,473
Freight revenue	$300,313,199	316,533.329
Revenue per ton	$3·80384	$3·95957
Revenue per ton mile	$0·00975	$0·00915
Miles per revenue ton	390·27	432·81
Ton-miles—Revenue freight per mile of road	1,314,663	1,472,423
Ton-miles—All freight per mile of road	1,425,942	1,589,767
Gross-ton-miles of cars, contents and cabooses	71,654,047,848	77,301,216,775
Net ton-miles of freight (Revenue and non-revenue)	33,419,975,710	37,356,916,946
Train-hours in freight road service	2,723,640	2,850,886
Passenger Traffic:		
Passengers carried	22,320,490	30,370,680
Passengers carried one mile	2,289,022,387	3,338,197,658
Passenger revenue	$50,128,223	$65.199,923
Revenue per passenger	$2·24585	$2·14680
Miles per revenue passenger	102·55	109·92
Revenue per passenger mile	$0·02190	$0·01953
Passenger-miles per mile of road	97,667	142,061
Net Railway Operating Income:		
Gross Revenue per mile of road	$17,091.95	$18,459.73
Gross Railway operating charges per mile of road	$15,745.41	$15,571.11
Net railway operating income per mile of road	$1,346.56	$2,888.62

OPERATED MILEAGE, 31st DECEMBER, 1946

Territory	Owned	Leased	Trackage	Total
Operated Road Mileage				
Atlantic Region	2,986·85	6·41	82·95	3,076·21
Central Region	7,089·00	353·13	27·85	7,469·98
Western Region	11,427·18	34·84	64·07	11,526·09
Grand Trunk Western Lines	903·19	9·50	59·75	972·44
Central Vermont Lines	237·92	125·18	58·73	421·83
Total First Main Track	22,644·14	529·06	293·35	23,466·55
Lines in Canada	21,287·60	222·05	170·48	21,680·13
Lines in United States	1,356·56	307·01	122·87	1,786·42
Operated Mileage all Tracks				
First Main Track	22,644·14	529·06	293·35	23,466·55
Second Main Track	1,218·37	9·34	85·42	1,313·13
Third Main Track	26·65	....	3·49	30·14
Fourth and Other Main Tracks	10·78	....	5·09	15·87
Spurs, Sidings and Yard Tracks	5,926·39	172·79	1,178·51	7,277·69
Total All Tracks	29,826·33	711·19	1,565·86	32,103·38

The CHAIRMAN: Then, we come to page 28 which is headed disbursement of total operating revenues and expenses, employees and their compensations.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1946–%	1945–%	1946–%	1945–%
Labour	55·10	47·19	61·79	57·61
Fuel	9·65	9·77	10·82	11·92
Other Expenses	24·43	24·95	27·39	30·47
Total Operating Expenses	89·18	81·91	100·00	100·00
Available for Taxes and Other Accounts	10·82	18·09		
Total	100·00	100·00	100·00	100·00
Maintenance of Way Accounts	16·76	16·21	18·80	19·79
Maintenance of Equipment Accounts	18·41	17·70	20·64	21·61
Traffic Accounts	1·77	1·39	1·99	1·70
Transportation Accounts	46·27	41·30	51·88	50·42
Miscellaneous Accounts	1·18	1·45	1·32	1·77
General Accounts	4·79	3·86	5·37	4·71
Total Operating Expenses	89·18	81·91	100·00	100·00

EMPLOYEES AND THEIR COMPENSATION

Year	*Average Number of Employees	*Total Payroll	% Inc. over Previous Year Employees	Payroll
1939	78,129	$122,354,101		
1940	82,831	132,584,063	6·02	8·36
1941	89,536	153,654,368	8·09	15·89
1942	94,592	177,042,773	5·65	15·22
1943	101,126	195,555,045	6·91	10·46
1944	102,764	222,649,839	1·62	13·86
1945	105,624	220,507,637	2·78	*0·96*
1946	105,353	237,335,781	*0·26*	7·63

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

Mr. JACKMAN: Just on that breakdown of the dollar in operating expenses, labour is down at 55·10 per cent. Many of the other items do embrace some labour, would that not be so?

Mr. COOPER: When you speak of the breakdown in operating expenses, labour is 61·79.

Mr. JACKMAN: But fuel also embraces quite a bit of labour.

Mr. COOPER: No, fuel would be material, but the other accounts would involve some labour. In our stores department, for example, we charge the wages of store employees to material stock. Then, it is added to the issue price and it goes in as material rather than labour. These are the usual statistics. It is really the direct payroll charge to the operating expense account.

Mr. JACKMAN: But you have not got a breakdown of the dollar that you get in.

Mr. COOPER: Yes, it is over on the left hand side, Mr. Jackman, that was the figure you quoted first.

Mr. JACKMAN: But you have not got it divided as between labour, taxes, and return on investments.

Mr. COOPER: It is all down there, labour, 55·10 per cent; fuel 9·65 per cent; other expenses 24·43 per cent; total operating expenses, 89·18 per cent, leaving available for taxes and other accounts 10·82 per cent.

Mr. Jackman: I know you have it here but in many of those items, you mentioned stores, there is a labour content there.

Mr. Cooper: A small labour content.

Mr. Jackman: And the purchase of stores, etc., all have labour content.

Mr. Cooper: In the final analysis everything is labour.

Mr. Jackman: In other words the percentage going for taxes and for capital return might amount to 3 or 4 cents out of the dollar. It would have to be an arbitrary estimate.

Mr. Cooper: I think the answer is 10·82 per cent.

Mr. Nicholson: There was a small increase in the total number of employees in 1946. Have you reached the peak or what are your forecasts for 1947.

Mr. Vaughan: We had a few less in 1946 than in 1945. I think our employees will probably run about the same in 1947.

Mr. Emmerson: The same as 1946?

Mr. Vaughan: Yes.

Mr. Emmerson: Does that number of employees include temporary employees?

Mr. Cooper: Yes, the employment figure is arrived at by making a count on the 15th of the month.

Mr. Emmerson: Each month?

Mr. Cooper: Each month, and dividing the total by twelve.

Mr. Walton: That would take in the temporary men.

Mr. McLure: I understand you have taken back new employees in addition to the veterans who have returned.

Mr. Vaughan: Yes.

Mr. McLure: Possibly some of them were not in your service previously.

Mr. Vaughan: Yes.

Mr. McLure: But preference is still being given to the veterans?

Mr. Vaughan: Yes, it is.

Mr. Nicholson: Is there any trouble recruiting employees for the railway?

Mr. Walton: We have been short in the shops.

Mr. Vaughan: Outside of mechanics we have had no difficulty.

Mr. Nicholson: How about the running trades?

Mr. Vaughan: There are plenty available in the running trades.

Mr. Mutch: Has there been any relaxation of the apprentice regulations in the shops?

Mr. Vaughan: The old apprentice arrangements had to be suspended in the shops during the war because the men were not available, but they have been restored.

Mr. Mutch: Restored as they were in 1939?

Mr. Walton: Yes, the full apprenticeship program is working at the various shops.

Mr. Mutch: Is there any difficulty in getting as many apprentices as you want?

Mr. Walton: No, I would say at the present time, the supply was very good.

Mr. Lockhart: I presume, Mr. Chairman, under this heading I could make a brief inquiry with reference to the employees, the old veterans as we might call them, who had been superannuated and then called back during

the war, but some of those were not physically able to assist you. You have quite a number of them who were not able to do any physical work. They receive a certain amount in the way of pension.

Mr. VAUGHAN: Yes.

Mr. LOCKHART: What I am asking is was anything done during the latter part of the war to give them any further compensation in lieu of the usual cost of living bonus that we know or did they get no further remuneration? Did they just get their pension?

Mr. VAUGHAN: They got the usual remuneration when they came back.

Mr. LOCKHART: I am speaking of those who were physically unable to come back.

Mr. VAUGHAN: No sir, we did not increase the pension.

Mr. LOCKHART: You did not give them any consideration at all?

Mr. VAUGHAN: No sir, not in the way of increased pensions.

Mr. MUTCH: Just one other question with respect to the apprentice regulations. Do you know if any credit is being given towards the shortening of the apprentice's time in the case of those chaps who come in having qualified in the armed services as mechanics?

Mr. WALTON: The arrangement made in that respect, Mr. Mutch, was that any man who had been working for his apprenticeship and went into the armed services was given full credit for the time he was in the army if he was engaged in work that was of a nature that could be considered a continuation of the work he was doing in the company, such as a naval artificer, and work like that. If he went into some branch of the service which did not help qualify him say, as a machinist, then if he was an apprentice his continuity of service was preserved but he did not get credit for those years spent in the army so far as his apprenticeship is concerned. If that were not done we might have a man with a five year apprenticeship record which would work out that he had been in the army four years and he just could not qualify as a competent mechanic. We thought that the best arrangement had been made, consistent with qualifying him for his trade.

Mr. MUTCH: The position is clear with respect to those in the service of your company, and as you say it would not make for efficiency. There were however, boys who went into the air force where they had an excellent opportunity of qualifying as machinists and in other mechanical trades. They came out, some of them, with a rating as high as master-mechanics. My point is if some of those boys should desire to come into the shops anywhere, do they have to begin all over again?

Mr. WALTON: No, a man like that would not come in as an apprentice. If he is an experienced man he can be hired as a regular mechanic.

Mr. MUTCH: Without going through an apprenticeship?

Mr. WALTON: Yes.

Mr. McLURE: On that question of apprenticeship, due to the centralization in Moncton, and due to our work in Prince Edward Island, it will only be a matter of two or three years until we will not have a mechanic in the railway shops whatsoever. I wish to bring this question up before the president here. Is there any way we could be allocated a certain number of apprentices who are desiring to go in and learn a trade so they can get a position and become apprentices at the shops in Moncton?

Mr. VAUGHAN: You mean to give them the opportunity in Moncton of becoming apprentices.

Mr. McLURE: Yes.

Mr. WALTON: I can give you some information on that particular point. We have not checked up recently because the regular apprenticeship arrange-

ments were disrupted during the war and they are only now getting back to the ordinary flow but some years ago this particular point was the subject of some correspondence with our regional officer. At that time, a plan was being followed where the recruiting of apprentices was done throughout the various provinces in relation to the population.

Mr. McLure: That is what I would like to see happen.

Mr. Walton: That is the scheme we followed during the years prior to the war but I have not had occasion to check on it recently.

Mr. Vaughan: We will check it up just to be sure the original instructions are now being carried out.

Mr. Emmerson: I want to ask if apprentices are now being taken into the shops?

Mr. Walton: Yes, as they are required. Just what the numbers are is something I would have to look up.

Mr. Emmerson: There are some being taken on in some of the shops?

Mr. Walton: Yes.

The Chairman: We have pages 30 and 31 before us, revenue tonnage by commodities.

REVENUE TONNAGE BY COMMODITIES

	Year 1946	Year 1945	Increase or *Decrease*	
	Tons	Tons	Tons	Per-cent
Agricultural Products:				
Wheat	5,630,365	8,836,831	*3,206,466*	*36·29*
Corn	442,397	470,431	*28,034*	*5·96*
Oats	1,724,535	1,853,887	*129,352*	*6·98*
Barley	1,141,953	1,370,197	*228,244*	*16·66*
Rye	76,929	85,227	*8,298*	*9·74*
Flaxseed	104,275	116,848	*12,573*	*10·76*
Other Grain (including dried peas, beans, soya beans)	166,668	155,894	10,774	6·91
Flour	1,216,415	1,177,277	39,138	3·32
Other Mill Products	2,235,176	2,120,249	114,927	5·42
Hay and Straw	242,828	253,578	*10,750*	*4·24*
Cotton	92,383	79,755	12,628	15·83
Apples (fresh)	110,715	91,224	19,491	21·37
Other Fruit (fresh)	470,823	432,482	38,341	8·87
Potatoes	397,721	411,572	*13,851*	*3·37*
Other Fresh Vegetables	262,100	261,268	832	0·32
Other Agricultural Products (excluding dried peas, beans, soya beans)	747,320	725,845	21,475	2·96
Total	15,062,603	18,442,565	*3,379,962*	*18·33*
Animal Products:				
Horses	68,869	46,296	22,573	48·76
Cattle and Calves	390,505	398,994	*8,489*	*2.13*
Sheep	27,983	27,136	847	3·12
Hogs	153,108	218,802	*65,694*	*30·02*
Poultry (live)	990	2,431	*1,441*	*59·28*
Dressed Meats or Dressed Poultry (fresh or frozen)	230,219	294,449	*64,230*	*21·81*
Dressed Meats (cured or salted)	132,800	233,454	*100,654*	*43·12*
Other Packing House Products (edible)	55,474	42,377	13,097	30·91
Eggs	73,970	91,125	*17,155*	*18·83*
Butter	50,205	65,345	*15,140*	*23·17*
Cheese	61,519	88,219	*26,700*	*30·27*
Wool	72,043	67,404	4,639	6·88
Hides and Leather	85,239	85,696	*457*	*0·53*
Other Animal Products (non-edible)	127,285	114,463	12,822	11·20
Total	1,530,209	1,776,191	*245,982*	*13·85*

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Year 1946 Tons	Year 1945 Tons	Increase or *Decrease* Tons	Per-cent
MINE PRODUCTS:				
Anthracite Coal	3,077,841	2,095,409	982,432	46·88
Bituminous Coal	9,882,636	9,193,585	689,051	7.49
Sub-Bituminous Coal and Lignite Coal	1,836,392	1,823,304	13,088	0.72
Coke	1,274,250	1,472,883	*198,633*	*13·49*
Iron Ores and Concentrates	977,456	646,270	331,186	51·25
Copper Ore and Concentrates	161,310	181,605	*20,295*	*11·18*
Other Ores and Concentrates	1,348,638	2,033,078	*684,440*	*33·67*
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	506,658	819,398	*312,740*	*38·17*
Sand and Gravel	1,944,218	1,438,943	505,275	35·11
Stone (crushed, ground, broken)	2,030,272	2,009,009	21,263	1·06
Slate, Dimension or Block Stone	103,640	70,984	32,656	46·00
Crude Petroleum	523,124	606,176	*83,052*	*13·70*
Asphalt (natural, by-product petroleum)	268,972	199,882	69,090	34·57
Salt	515,273	567,193	*51,920*	*9·15*
Other Mine Products (not fully processed)	1,440,335	1,042,179	398,156	38·20
Total	25,891,015	24,199,898	1,691,117	6·99
FOREST PRODUCTS:				
Logs Posts, Poles, Piling	988,519	677,158	311,361	45·98
Cordwood and Other Firewood	553,648	580,163	*26,515*	*4·57*
Ties	56,505	61,290	*4,785*	*7·81*
Pulpwood	4,842,085	4,104,087	737,998	17·98
Lumber, Timber, Box, Crate and Cooperage Material	4,461,841	4,090,454	371,387	9·08
Other Forest Products	254,088	252,371	1,717	0·68
Total	11,156,686	9,765,523	1,391,163	14·25
MANUFACTURERS AND MISCELLANEOUS:				
Gasolene	1,726,698	1,391,244	335,454	24·11
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,382,975	1,769,601	*384,626*	*21·76*
Sugar	294,174	375,950	*81,776*	*21·75*
Iron, Pig and Bloom	290,772	288,527	2,245	0.78
Rails and Fastenings	48,110	61,635	*13,525*	*21·94*
Iron and Steel (bar sheet, structural, pipe)	1,479,516	1,733,839	*254,323*	*14·67*
Castings, Machinery and Boilers	308,264	259,747	47,517	18·68
Cement	728,357	488,525	239,832	49·09
Brick and Artificial Stone	309,630	213,776	95,854	44·84
Lime and Plaster	371,760	367,387	4,373	1·19
Sewer Pipe and Drain Tile	36,479	30,085	6,394	21·25
Agricultural Implements and Vehicles other than autos	249,980	228,674	21,306	9·32
Automobiles, Auto Trucks and Auto Parts	1,255,043	1,701,549	*446,506*	*26·24*
Household Goods and Settlers Effects	26,815	20,268	6,547	32·30
Furniture	64,680	49,525	15,155	30·60
Beverages	506,792	473,298	33,494	7·08
Fertilizers, All Kinds	1,266,345	1,130,242	136,103	12·04
Newsprint Paper	1,833,686	1,462,742	370,944	25·36
Other Paper	419,293	317,307	101,986	32·14
Paper Board, Pulpboard and Wallboard (paper)	440,603	400,422	40,181	10·03
Woodpulp	1,237,955	1,295,781	*57,826*	*4·46*
Fish (fresh frozen, cured, etc.)	152,113	164,628	*12,515*	*7·60*
Canned Goods (all canned food products)	681,801	624,518	57,283	9·17
Other Manufactures and Miscellaneous	7,736,068	8,709,255	*973,187*	*11·17*
Merchandise (all L.C.L. Freight)	2,461,586	2,200,594	260,992	11·86
Total	25,309,495	25,757,119	*447,624*	*1·74*
Grand Total	78,950,008	79,941,296	*991,288*	*1·24*

Mr. McLURE: Do not forget you want to draw to everyone's attention the second picture on page 32.

The CHAIRMAN: Yes, especially the second one.

Mr. McLure: Yes, the Canadian cruiser, the new Canadian government ice-breaking car ferry for service between New Brunswick and Prince Edward Island. So that we will not be isolated.

Mr. Mutch: They will never be isolated down there, Colonel McLure, as long as you are here.

Mr. Jackman: The only recommendation I would like to make with regard to that ferry boat is that it be called the S.S. McLure.

The Chairman: Would someone move the adoption of that?

Mr. Mutch: I would move the adoption of that report.

The Chairman: It is moved by Mr. Mutch and seconded by Mr. Warren that we adopt the report. Is that agreeable?

Carried.

Gentlemen, I think the next matter is the budget.

Mr. Jackman: Have you distributed the budget yet?

Hon. Mr. Chevrier: No. It should be distributed before the members leave.

The Chairman: Shall we meet tomorrow morning at 11 o'clock?

Mr. McLure: We had better meet at 10 so we can get through.

Mr. McCulloch: Half past ten?

Mr. Jackman: Eleven o'clock.

The Chairman: Perhaps we had better keep our regular hours and meet at 11 o'clock.

The committee adjourned at 5.30 p.m. to meet again on Thursday, May 1, 1947, at 11 o'clock a.m.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MAY 1, 1947

Consideration of

Canadian National Railways and Steamships Budget (1947);
Canadian National (West Indies) Steamships, Limited, Annual Report (1946);
Canadian National Railways Securities Trust Annual Report (1946);
Auditors Report to Parliament (1946) on the Canadian National Railways, The Canadian National Railways Securities Trust, and the Canadian National (West Indies) Steamships, Limited;
Items 434, 435 and 479 of the Estimates for 1947-48.

WITNESSES:

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;
Mr. N. B. Walton, Executive Vice-President, Canadian National Railways;
Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

MINUTES OF PROCEEDINGS

Thursday, 1st May, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hatfield, Hazen, Jackman, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson.

The Committee considered the 1947 Budget for the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited.

Messrs. R. C. Vaughan, President, N. B. Walton, Executive Vice-President, and T. H. Cooper, Vice-President, and Comptroller, Canadian National Railways, were called and examined thereon.

By unanimous consent, Mr. Knight, M.P., (*Saskatoon City*), was permitted to address the Committee and ask questions concerning the activities of the Hudson Bay Railway.

On motion of Mr. Emmerson, the said Budget was adopted.

The 1946 Annual Report of the Canadian National (West Indies) Steamships, Limited, was read by Mr. Vaughan. He was questioned thereon. Mr. T. H. Cooper was also examined.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

The Committee adjourned at 1.00 o'clock p.m. to meet again this day at 4.00 o'clock p.m.

The Committee resumed at 4.00 o'clock p.m. The Chairman, Mr. Clark, presided.

Members present: Messrs. Belzile, Bourget, Chevrier, Clark, Emmerson, Dion (*Lake St. John-Roberval*), Hatfield, Hazen, Jackman, Lockhart, McCulloch (*Pictou*), Moore, Mutch, Lapointe, Reid, Warren.

Mr. T. H. Cooper read the 1946 Annual Report of the Canadian National Railways Securites Trust and was questioned thereon. He was assisted by Mr. R. C. Vaughan.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

Mr. O. A. Matthews, of George Touche & Company, was called. The 1946 Report to Parliament of the Auditors of the Canadian National Railways, The Canadian National Railways Securities Trust, and the Canadian National (West Indies) Steamships, Limited, was taken as read and considered.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted.

The following items of the Estimates for the year ending 31st March, 1948, were considered:

Vote No. 434, Maritime Freight Rates Act—Canadian National Railways;

Vote No. 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote No. 479, Prince Edward Island Car Ferry and Terminals—Deficit 1947.

On motion of Mr. Reid, the said items were adopted.

At 6.00 p.m. the Committee adjourned to meet again Tuesday, 13th May, at 11.00 o'clock a.m.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons

May 1, 1947

The Standing Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The Chairman: Gentlemen, I believe we have a quorum. I think there are some questions which were asked yesterday for which Mr. Walton has the answers.

Mr. Walton: I have some answers here. There was an inquiry by Mr. Pouliot regarding the installation of electric lights in the station at St. Arsene. I find that is on our list for this year and it is expected the installation will be made within the next few weeks.

There was also an inquiry, I believe by Mr. Hatfield, with respect to an accident which occured on February 27th. On February 27, 1947, on Grand Falls subdivision, Extra 3392, west, in charge of Engineer J. R. Richard approached Odell, mileage 34·84 holding an order to meet First 710 at that point; Extra 3392 west was required to enter the siding at the east switch. First 710 had just arrived at Odell and stopped on the main line with the engine of that train about 500 feet west of the east switch. There was not time for the crew of First 710 to set the switch for the siding when Extra 3392, west, arrived and overran the switch at a speed of about ten miles per hour with brakes set and struck First 710 where it stood at a speed of about six miles per hour.

Approaching mileage 33 the fireman of Extra 3392 had some difficulty operating the injector and Engineer Richard concentrated his attention on assisting the fireman with the injector which diverted his attention from the fact that he was closely approaching Odell, and the view of the switch, approaching from the east is restricted to about 650 feet. At the time of this accident, Engineer Richard was 58 years of age, had been in our employ 34 years and had been promoted to engineer 30 years ago. He was discharged in March, 1920, for striking the rear of a snow plough train, but weather conditions at the time were taken into consideration and he was reinstated in January 1921. He was again discharged in April, 1942, for damage caused by him in an accident in a yard, but was reinstated in November of the same year. His record otherwise was normal and shows many years of service without a mark against his record.

The occurrence on February 27, 1947, was not a head-on collision in the sense that Engineer Richard had overlooked or forgotten the order to meet the opposing train. His testimony at the investigation showed that he had the order in mind, but that it was a matter of having over-shot the switch. This was apparent from the slow speed at which he passed the switch and at which the collision occurred.

As has been done in other cases, Engineer Richard's previous record was taken into consideration, and the case was dealt with by 45 days' suspension of Engineer Richard. I concurred in this decision, as it seemed a fair and reasonable conclusion and neither persecuted the engineer because of the error he had made nor dealt too leniently with an accident involving damage which could have been avoided by Engineer Richard had he brought

his train to a stop before attempting to assist in the operation of the injector. All such cases are carefully considered and an effort is made to handle them in such a manner that discipline will be maintained, but with the feeling that men who have served the railway for many years, and whose record justifies consideration, should not be treated with undue severity.

Mr. HATFIELD: Whose report is that?

Mr. WALTON: That is a memorandum I prepared from the file.

Mr. HAZEN: His previous record was taken into consideration, but his previous record would seem to indicate he was discharged twice.

Mr. WALTON: That is true, but at the same time, he had operated an engine for some thirty years.

Mr. HAZEN: I think Mr. Hatfield's suggestion was that there was some influence brought to bear to have this man reinstated. I presume there usually is with persons who get discharged. There is an effort made to get the man back. Efforts are made to show, this might have been his first offence or something of this kind. Evidently, in this case, it was not the man's first offence but apparently he was discharged, as I say, on two previous occasions and taken back.

Mr. WALTON: That is right.

Mr. HAZEN: What I have in mind about it is this, there is a suggestion, I think, that some outside influence was brought to bear which got this man back. The reason I mention it is because I had a case brought to my attention not long ago of an engineer who started in the service as a boy. He knew nothing else. He worked up to be an engineer and was discharged. Apparently, he was an accessory after the fact. In any event, it had to do with a theft of sugar. The story he told and wrote me seemed a very good one, but perhaps it was not correct. Perhaps the facts as he gave them to me were not true. I am not in a position to say, but here was a chap who started in as a boy on the railway and he worked his way up. He had never had any other charge against him but, because two other fellows apparently got drunk and took this sugar into his engine, he was discharged. He had no chance to get back. Perhaps he should not have had that opportunity, I do not know, but it does not seem quite fair to make fish of one and fowl of another.

Here is a man who was discharged twice but taken back, while the man for whom I speak never had a previous charge brought against him. He had a clean record. He went into the railway as a boy and yet he was not given a second chance. It was not, as I understand it, a case in which he had done something wrong deliberately. He was a victim, more or less, of circumstances. These other fellows stole the sugar, took it into his engine, and put him in a very difficult position. However, as I say, I do not know all the facts.

Mr. WALTON: We do make a very great distinction between a man who is guilty of an error in judgment and one who is mixed up in the stealing of freight or anything like that. We have to do that. If we are not strict about pilferages, they will reach proportions with which we cannot cope. This man on whom I wrote the memorandum was dealt with as many others have been dealt with. We have had men make serious mistakes. If their previous records are reasonably good, and have devoted a large part of their life to the railway with the consequent difficulty of getting employment anywhere else, we try to give that consideration. We have many men who have been discharged once, and we have men who have been discharged twice who follow that with ten years or fifteen years of excellent service.

In the case to which Mr. Hazen has referred, he has been given one side of the story and we have the other side of the story. It was definitely a case of pilfering. If the man on whose behalf you have spoken was not implicated

in the matter, we do not understand why he threw some of this sugar into the firebox of the locomotive in order to destroy the evidence. Now, you can talk about being an accessory after the fact, but, when we receive information of that kind, we have to take action. I do not think the case of which you speak is, in any sense, parallel to this.

Mr. NICHOLSON: In connection with this accident case, were there fatal injuries?

Mr. WALTON: No.

Mr. EMMERSON: Did the Brotherhood of Locomotive Engineers make any representation on behalf of this man Richard?

Mr. WALTON: I would have to take that up with Mr. Johnson of the Atlantic Region to know about that. The decision for the forty-five days' suspension was made on the merits of the case and has not been changed since and is not going to be changed.

Mr. HATFIELD: I should like you to look over that file and inform me of the reason for discharging this conductor.

The CHAIRMAN: Have you anything else to file, Mr. Walton?

Mr. WALTON: That is all I have.

Mr. JACKMAN: I might say, Mr. Chairman, if it is the policy of the railway to take drastic action with that we might call moral errors, as compared with much less drastic action in connection with errors of judgment, I think there might be some call for us to consider whether or not there is not some error in the weighing of these two crimes, if you wish to call them that. Certainly, in a railway, the most important thing is judgment in the operation of the trains. It is not like some other business where you do not have to be right or are not expected to be right all the time. In the railway business, I would think you would not be allowed more than one bite. After it is found a man is not capable of using extraordinary care in the operations of trains, I think he should not be put in charge of trains again. He should, at least, be demoted to where someone else would be responsible.

I think this particular case, of which I know nothing except what I have heard here, would indicate that a man who has twice been the cause of accidents was again put in charge of trains. It is very peculiar that the railway company, no matter what his moral claim should be, keeps him in that capacity. I do not want to see a man hurt, of course, no one does, but it seems to me he should certainly be given a position where he cannot cause damage, much less loss of life to others who are on the railroad. I believe that is a much more important feature than the stopping of petty thievery which also, of course, must be stopped.

Mr. VAUGHAN: This matter of discipline is one which causes a great deal of concern. Discipline is not applied lightly nor without very careful consideration. The seriousness of the offense has to be taken into account. There are two things for which we will not reinstate a man, one is for thieving and the other is for being intoxicated on duty. I would not like to create the impression we reinstate men who have been discharged for offences as a regular thing. We are discharging scores of men every year for offences and they are not returned to the service. However, we do have to be governed by the circumstances surrounding each instance in applying discipline. I do not see how we could do otherwise. This must be left to the best judgment of the officials of the railway. The matter of the application of discipline is a very serious one. I do not know of any case, certainly none have come before me, where anyone has been reinstated as the result of influence. Of course, these cases do not all come before me.

Mr. HATFIELD: Do you think an engineer, 58 years old, after he has had three accidents, could be given another job if you wanted to keep him in service.

Mr. VAUGHAN: I do not know anything about the circumstances, this is the first I have heard about it. In this particular case, the discipline would be applied by our Atlantic Region officials, the discipline would be recommended by them. I do not think the vice-president and general manager of our Atlantic region has a reputation for being very easy.

Mr. McCULLOCH: These men all belong to a union. They have their own officers in the union and if the men are right the union will certainly take their case up with the authorities. However, there are some cases in which even the union will not interfere. I know Mr. Johnson of the Atlantic region is very strict in these things and has been very fair, considering the whole situation.

Mr. NICHOLSON: As a matter of policy, it would appear that forty-five days out of service would be a rather lenient penalty for a third offence? It appears to me, from hearing the memorandum, that this was a case of gross negligence on the part of the engineer. I have had some experience with men being out of service for six months for offences which appeared to me, on the surface, to be much less serious than this one.

Mr. VAUGHAN: He would lose perhaps $450 in wages as a result of that penalty. I think, perhaps, we might investigate this case a little further.

Mr. NICHOLSON: I have known of men being out of service for six months for offences which, on the surface, would not appear to be as serious as this one.

Mr. McCULLOCH: It appears to me to be a very small matter with which to take up the time of this committee.

Mr. EMMERSON: Is not a case of a defective injector rather a serious thing. There might be danger of damage to the locomotive if this failed to work?

Mr. WALTON: The injector had to be attended to, but he could have brought the train to a stop and attended to it. It was for this reason I did not gloss over it. He could have brought his train to a stop.

Mr. JACKMAN: I think we should have a word from the president on this matter. If you have men who have had two serious accidents and are again in charge of a locomotive, it might indicate that they actually have a lapse—I am not criticizing a man for that alone because it requires a certain mentality to be an engineer. A man might be imaginative and have great scope in other fields, but may not be fit to be an engineer. Certainly an engineer must be a man who is careful and conscientious to a very high degree. This man might very well be fitted for another position. It does take a certain type of man to be an engineer. This man has committed these errors of judgment twice and, human life being at stake each time, I think the president should indicate to this committee whether he thinks it is sound, except under the most exceptional circumstance such as a blinding snowstorm, that there may ever be a reasonable excuse for such a thing. They used to have a classification in the air force when nothing could ever be proven against a man, every regulation had been followed, but he still had accidents, there was a notation on his record, "prone to accidents". Some people are unlucky that way. There are some people who seem to have accidents. Do you have many men who do?

Mr. VAUGHAN: Generally speaking we would not reinstate a man who had two serious accidents. This accident might not be classed as a very serious accident. Nevertheless, we are very serious about reinstating a man. I should like to see the files and all the evidence surrounding this case before I would render judgment as to whether or not this man should have been reinstated. I should like to again stress that our railroad officers are very experienced men.

They are not going to allow any man to remain in charge of the operation of a train if they consider he is incompetent to handle it. This case is an isolated case and the circumstances surrounding it may be entirely different to those we have heard.

Mr. HATFIELD: There were a number of cases of the same thing on the Atlantic division.

Mr. VAUGHAN: You think, Mr. Hatfield, our discipline is too lenient down there?

Mr. HATFIELD: No, I do not think that. I think some of your conductors and engineers have been discharged without reason and they have not been taken back. There are these two men who have had very serious accidents and have been kept on. One man has been suspended thirty days. There was another accident at Bathurst in February in which four people were injured, four trainmen. The two engines were ruined and the man was let out for only thirty days. Other men have been discharged and not taken back for no reason whatever.

Mr. VAUGHAN: I would not say that. No man has been discharged without good reason.

Mr. HATFIELD: I just want to get the facts.

Mr. VAUGHAN: We would not have the facts of this particular case here, but I would say that if this committee is going to go into the discipline as applied to every officer and employee of the railway, you will be sitting constantly every day for the 365 days of a year.

Mr. WALTON: Mr. McCulloch's point is well taken, that these men are represented by their duly authorized representatives in the brotherhood. It is not possible for us to discharge a man for no reason at all and not hear about it or have representations made.

Mr. JACKMAN: Mr. McCulloch's point is well taken. If your punishment is excessive, the union will protect the man, but it is the other side of the question with which this committee is concerned, the fact that you might be too lenient.

Hon. Mr. CHEVRIER: May I point out that this committee has spent one-half hour considering this case which if it should be taken up at all, should have been taken up during the consideration of the report yesterday. I suggest we move on to the discussion of the budget.

Mr. JACKMAN: Do you ever change a man's position? Do you ever demote an engineer to a fireman if the offence is not serious enough to discharge him?

Mr. VAUGHAN: We sometimes demote a man if we consider his offence is not serious enough to warrant discharging him. We may engage him in another position.

Mr. JACKMAN: You can, as a disciplinary measure, demote an engineer to a fireman?

Mr. VAUGHAN: We could, but there are, of course, seniority rights which might be involved. These things would have to be taken into consideration.

The CHAIRMAN: If that is all the discussion on that matter, gentlemen, let us consider the budget. How would you like to deal with the budget?

Mr. VAUGHAN: I think Mr. Cooper might read the budget.

Mr. COOPER: This is the operating budget for 1947:—

CANADIAN NATIONAL RAILWAYS

Summary of Financial Requirements—Year 1947

—	1946 Budget	1946 Actual	1947 Budget	Details on page
	$	$	$	
Operating Budget— Surplus or (*) Deficit	7,500,000	*8,961,570	*31,000,000	2
Capital Budget— Additions and betterments	14,000,000	3,757,010	18,000,000	3
New equipment	8,863,000	3,183,193	41,500,000	4
Barraute branch line	....	23,645	2,684,000	5
Acquisition of Manitoba Railway	7,000,000	7,000,000	....	....
Acquisition of securities and retirement of capital obligations	840,000	592,442	1,057,000	6
Sinking fund and equipment trust principal payments	9,347,000	9,347,100	....	....
	40,050,000	23,903,390	63,241,000	....
Less amounts available from reserves for depreciation and debt discount amortization	17,500,000	17,146,604	16,518,000	....
Total Capital Budget	22,550,000	6,756,786	46,723,000	....

Retirement of $6,969,191 equipment trust principal payments will be financed under the 1947 Refunding Act.

The authorized capital stock of The Trans-Canada Air Lines is $25,000,000. The capital paid in to December 31, 1946 by Canadian National Railways was $6,600,000. During 1947 the railway may be required to pay the balance of $18,400,000 to enable Trans-Canada Air Lines and its subsidiaries to finance the air lines 1947 capital budget.

Mr. JACKMAN: That is based on the present rate structure?

Mr. COOPER: Yes, so far as the Canadian lines are concerned; yes.

CANADIAN NATIONAL RAILWAYS

Operating Budget

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Operating Revenues— (*a*) Operating revenues, excluding (*b*) and (*c*)	381,251,000	395,788,184	397,467,000
(*b*) Payment under Maritime Freight Rates Act (20%)	3,042,000	3,909,878	3,950,000
(*c*) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	707,000	887,964	743,000
	385,000,000	400,586,026	402,160,000
Operating expenses	325,500,000	357,236,718	380,500,000
Net operating revenues	59,500,000	43,349,308	21,660,000
Net income charges, excluding interest	7,174,000	7,629,781	8,106,000
Interest on funded debt—public	23,377,000	23,358,514	22,485,000
Interest on government loans	21,449,000	21,322,583	22,069,000
Total income charges	52,000,000	52,310,878	52,660,000
Surplus or (*) Deficit	7,500,000	*8,961,570	*31,000,000

NOTE.—The 1947 budget includes $2,763,700 for contribution to the deficit of the I.C.R. and P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

Mr. JACKMAN: May I just ask in this regard whether or not you are budgeting for larger revenue than last year on your United States lines?

Mr. COOPER: I would have to check that to make sure. We are expecting much better results in 1947 on our United States lines than we experienced in 1946.

Mr. JACKMAN: In gross operating revenue?

Mr. COOPER: Yes, sir. I might say that at the present time the operating revenue on our lines in the United States shows an increase of 33 per cent over 1946; that is in the first three months of the year, or I should say up to the third week in April.

Mr. JACKMAN: Is it expected that we will have a larger wheat movement over C.N. lines?

Mr. COOPER: Yes.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments

—	1948 Budget	1946 Actual	1947 Budget
	$	$	$
Additions and Betterments—			
Atlantic region	1,686,067	920,736	1,912,944
Central region	5,914,660	1,957,202	7,420,829
Western region	3,109,860	951,936	3,878,047
Grand Trunk Western Railroad Company	1,985,729	60,508	2,476,568
Central Vermont Railway	344,931	137,977	333,362
Subsidiary companies	1,967,705	307,155	3,173,504
Express, telegraphs, and other departments	1,674,277	313,300	3,157,068
Additions and betterments to equipment (Canada)	2,116,956	715,578	2,708,541
Equipment retirements	Cr 1,800,185	Cr 1,607,382	Cr 2,060,863
	17,000,000	3,757,010	23,000,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31 each year	3,000,000	......	5,000,000
Total	14,000,000	3,757,010	18,000,000

Then, on page 3A these things to which I have just referred are broken down to what we call engineering classifications. Perhaps we should run over the balance of the budget first and then come back and take these up section by section.

CANADIAN NATIONAL RAILWAYS SYSTEM

ADDITIONS AND BETTERMENTS BUDGET—YEAR 1947

Expenditures Less Retirements Applicable to Capital Account

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Other	Total
	$	$	$	$	$	$	$
Additions and betterments—							
Rails and fastenings	107,970	806,479	416,459	155,000	10,475	....	1,496,383
Tie plates and rail anchors	162,129	634,361	546,919	74,600	27,334	....	1,445,343
Ballast	300,800	406,560	57,810	238,200	51,135	....	1,054,505
Widening cuts and fills	261,232	....	2,000	....	5,750	....	268,982
Rip-rap, retaining walls and cribs	8,000	....	....	....	....	....	8,000
Ditching drainage and sewers	13,785	24,600	30,010	....	....	....	68,395
Yards, tracks and sidings	93,293	507,336	201,462	139,400	....	....	941,491
Roadway machines	92,204	126,565	150,040	41,900	....	....	410,709
Bridges, trestles and culverts	158,166	348,057	646,578	32,700	92,347	....	1,277,848
Tunnels	....	4,500	8,800	....	....	....	13,300
Highway and crossing protection	10,310	118,272	7,030	129,673	5,109	....	270,394
Montreal office building	....	750,000	....	....	....	....	750,000
Stations and station facilities	303,864	1,119,506	1,313,345	469,624	12,406	....	3,218,745
Water supplies	4,054	129,845	66,025	38,540	10,768	....	249,232
Fuel stations	....	50,906	83,387	84,000	8,474	....	226,767
Shops, enginehouses and machinery	144,965	1,538,420	466,234	325,001	10,680	....	2,485,300
Docks and wharves	67,400	25,000	Cr 4,000	71,000	....	....	159,500
Signals and interlockers	942	21,957	35,944	140,556	12,500	....	211,899
Telegraphs—railway	....	....	....	....	....	906,186	906,186
Telegraphs—commercial	....	....	....	....	....	2,024,526	2,024,526
Land	5,000	20,000	5,155	....	....	....	30,155
General additions and betterments and contingencies	178,830	777,915	Cr 162,291	88,183	17,897	Cr 424 675	475,859
Express and miscellaneous equipment	....	10,550	7,140	16,900	1,782	411,528	447,900
Subsidiary companies	....	....	....	....	....	3,173,504	3,173,504
Hotels	....	....	....	....	....	239,503	239,503
Additions and betterments to equipment	....	....	....	431,191	66,705	2,708,541	3,206,437
Equipment retirements	....	....	....	....	....	Cr 2,060,863	Cr 2,060,863
Total estimated additions and betterments	1,912,944	7,420,829	3,878,047	2,476,568	333,362	6,978,250	23,000,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31, 1947	....	....	....	....	....	....	5,000,000
Net estimated additions and betterments	....	....	....	....	....	....	18,000,000

Canadian National Railways System

Equipment Purchases

Canadian National Railways System

Purchase of equipment:—

350 Ore cars
500 Automobile cars
400 Overhead freight refrigerator cars
50 Overhead express refrigerator cars
150 Covered hopper cars
3700 Box cars (Canadian lines)
500 Box cars (U.S. lines)
18 600 H.P. 75-ton diesel locomotives
2 380 H.P. 44-ton diesel locomotives

CANADIAN NATIONAL RAILWAYS SYSTEM—*Con.*
Equipment Purchases—*Con.*

3 Electric locomotives, similar to series Z-1-A
8 1,000 H.P. diesel switchers (U.S. lines)
20 1,000 H.P. diesel switchers (Canadian lines)
6 1,000 H.P. multiple unit cars
Total cost, including sales tax and inspection charges—$41,500,000.

On page 4 we find details of the new equipment estimated for 1947.

On page 5 we have a memorandum with respect to the further construction work on the branch line from Barraute to Kiask Falls.

CANADIAN NATIONAL RAILWAYS

Construction of new branch lines from Barraute to Kiask Falls, province of Quebec.

Authorized under Statutes of Canada 10 George VI Chapter 41

Total estimated mileage–55. Total estimated expenditure $4,125,000

Construction of 39·02 miles estimated to cost $3,234,367 from Barraute northerly to the boundary between Cartons Bartouille and Lass is spread over 3 years 1946 to 1948. In 1947 the cash requirement is estimated at $2,684,000. This is the first portion of the line to be constructed.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities
and
Retirement of Capital Obligations

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Toronto Terminals Railway— Joint with Canadian Pacific Railway Co. General additions and betterments—C.N.R. proportion 50 per cent	....	....	87,500
Northern Alberta Railways— Joint with Canadian Pacific Railway Co. General additions and betterments—C.N.R. proportion 50 per cent	250,000	....	350,000
Chicago and Western Indiana Railroad— Advances under agreement of March 1/36	160,000	161,774	169,500
Atlantic and St. Lawrence Railroad— Purchase of capital stock	....	....	20,000
Payment to State of Michigan *re* Wider Woodward Avenue, Detroit	430,000	430,668	430,000
	840,000	592,442	1,057,000

Mr. JACKMAN: Are the C.N. securities in the old country all back now?

Mr. COOPER: Substantially, yes. There are still a few dribbling in and that will probably continue, but in the main all the securities that could be repatriated under the vesting orders have been dealt with.

Mr. JACKMAN: Some bonds of the system are with the American public, of course?

Mr. COOPER: Perhaps we had better finish the budget first.

Mr. JACKMAN: Yes.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

—	1946 Budget	1946 Actual	1947 Budget
	$	$	$
Operating Budget—			
Operating revenue	3,677,000	6,669,128	6,359,000
Operating expenses	2,790,000	4,959,240	5,293,000
Net operating income	887,000	1,709,888	1,066,000
Vessel replacement fund earnings	175,000	196,887	250,000
Interest requirements on 5%—25-Year bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
U.S. exchange premium on bond interest	49,500	8,225	....
Interest on government notes and advances	126,500	126,499	126,000
Surplus	416,000	1,302,051	720,000
Capital Budget—			
3 diesel-driven cargo vessels	3,750,000	1,226,052	2,549,900
5 vessels from Park Steamship Company	450,000	1,085,000	1,540,000
	4,200,000	2,351,052	4,089,900
Less vessels sold—sale price	....	Cr 475,000	Cr 500,000
Net cash requirements	4,200,000	1,876,052	3,589,900

Note.—Funds for the purchase of these vessels will be taken from the vessel replacement fund.

Mr. Hatfield: You are now going back over these items?

Mr. Cooper: Yes.

The Chairman: Now we will start again at page one. Are there any questions?

Mr. Jackman: If you get a freight increase then the moneys appropriated by parliament would not be used, I suppose that is the situation?

Mr. Cooper: It will of course depend on when the increases become effective.

Mr. Jackman: You don't spend any money before you get it.

Mr. Cooper: I think you may be assured, Mr. Jackman, that the Department of Finance will see that we do not get any money that we are not entitled to; I can assure you of that.

Mr. Vaughan: We do not ask for anything we do not need.

Mr. Nicholson: Why is it your expenditures have been so much more than the amount for which you have estimated; take 1946, for instance?

Mr. Vaughan: That has occurred for several years past because we have not been able to get the materials and sometimes could not get the labour to proceed with the work. Mr. Cooper I think has a statement showing what our actual budget amounted to over the last five years and how much of it we actually spent.

Mr. Cooper: It is also due to the fact, Mr. Nicholson, that each year we must include in our budget an amount for a project which might be contemplated but which may not be undertaken or which may not be completed at the end of the year. In the 1947 budget before you there is $10,213,000 which is more or less a re-vote from the previous year; that sort of thing goes on from year to year. In 1946 our "additions and betterments vote" was $29,863,000, and of that we spent $13,963,000, that was an under-expenditure of $15,900,000. In the previous year our under-expenditure was $12,377,000. In 1944 our under-expenditure was $12,226,000. In 1943 our under-expenditure was $8,000,000; and so it goes. Over seven years we under-expended our

capital budget by $66,000,000. As Mr. Vaughan says, it depends on the availability of railway materials and labour and the fact that we must ask for a new vote for any work which we plan to commence even though it may not be completed within the year.

Mr. McCulloch: On page 4 you have new cars, 3,700 box cars; how are these being allotted for manufacture?

Mr. Vaughan: We have a statement here on that. There were 1,500 box cars to Canadian Car & Foundry, 500 to the National Steel Car company of Hamilton, and 1,700 to the Eastern Car company.

Mr. McCulloch: What I am trying to get at is this; the employment situation in New Glasgow is, I suppose, worse than at any other point in Canada to-day. There is less employment there now than at any other point in Canada; and the reason I am asking this question is to find out why more of these cars have not been allotted to them to keep unemployment down.

Mr. Vaughan: They have always had a fair share, Mr. McCulloch.

Mr. McCulloch: I know they have, but it is an extraordinary situation there to-day.

Mr. Vaughan: The cars now on order will keep them busy for a long time.

Mr. McCulloch: Yes.

Mr. Vaughan: And they will get their share in future of any equipment which we have to place.

Mr. McCulloch: Can you tell me whether or not they have started to manufacture these cars yet?

Mr. Vaughan: They got the order some time ago and I know they expect to start delivering cars in July; which means I suppose, they have been assembling their materials before starting to build cars.

Mr. McCulloch: Do you have any trouble getting materials?

Mr. Vaughan: There is considerable trouble particularly with lumber and steel products; but our purchasing department is co-operating with these companies and doing everything possible through the department of supply and elsewhere to get materials available as quickly as they can.

Mr. McCulloch: You know, of course, that so far as Eastern Car is concerned they do not get any business at all from the C.P.R.

Mr. Vaughan: They get a few cars, but very, very few—they possibly would get 100 cars from that source this year.

Mr. McCulloch: Then there is another item for cars, 400 refrigerator cars; how about them?

Mr. Vaughan: We build the refrigerator cars in our own shops at Transcona.

Mr. McCulloch: There are none built outside of your own shops?

Mr. Vaughan: No.

Mr. Hatfield: What do you mean by overhead?

Mr. Vaughan: The ice bunkers are overhead.

Mr. McCulloch: How about the automobile cars?

Mr. Vaughan: The automobile cars were given to Canadian Car & Foundry Company. In allotting this equipment we always take into account the delivery dates and the capacity of the plants to furnish the cars within a reasonable period of time.

Mr. McCulloch: I understand that Canadian Car & Foundry are filled up with orders to the end of 1947, and yet it would appear that they are getting a very much larger proportion of these orders than we are getting.

Mr. VAUGHAN: They got 1,500 box cars while Eastern got 1,700.

Mr. McCULLOCH: What about the ore cars?

Mr. VAUGHAN: They went to Hamilton because Hamilton had built ore cars for us before and have all the plans and specifications for those cars. It was just a repeat order so far as they were concerned.

Mr. McCULLOCH: Those 1,700 for Eastern Car will last them probably all of 1947.

Mr. VAUGHAN: Yes, they have not promised delivery before the end of 1947 and I think those cars will carry over into 1948.

Mr. McCULLOCH: What is the outlook for 1948 for Eastern Car?

Mr. VAUGHAN: I cannot say, Mr. McCulloch; it will depend on how business keeps up. As you know, we have been very short of freight cars for a number of years.

Mr. McCULLOCH: The only thing I am interested in is the labour end of it.

Mr. VAUGHAN: I think is it a very good order for Eastern Car; it amounts to $8,500,000.

Mr. HATFIELD: How about these refrigerator cars? Do they have heat control equipment?

Mr. WALTON: They have what is know as an under-slung heater, and there is a thermometer, with outside reading

Mr. HATFIELD: What about the hopper cars?

Mr. WALTON: The covered hopper car handles various commodities which require protection from the weather but they are unloaded from the under side of the car.

Mr. EMMERSON: Is that a new type, have you many of them?

Mr. VAUGHAN: No, we have only a few, about 20 built in our own shops at Leaside last year. It is the same as the hopper car, but it has a roof covering, with hatches in the roof.

Mr. NICHOLSON: I wonder if Mr. Cooper could give us a breakdown of this $41,000,000 on page 4 in unit cost for each of the items shown on that page.

Mr. VAUGHAN: We have never given unit costs before on equipment. We have no objection to giving them privately but it is just another case where competition enters into it between the various railway companies.

Mr. HAZEN: On page 1 there is the item of "retirement" of $6,969,191 for equipment trust principal payment which will be financed out of the 1947 Refunding Act; would you explain what that means? I do not understand it.

Mr. COOPER: Yes, a bill has been introduced or will be introduced to authorize the Canadian National Railways to issue securities to finance maturing or callable obligations. That is the usual procedure. We have had two or three previous Refunding Acts. We take authority through this method to give us authority to finance maturing obligations. When we get the authority equipment trust notes which you referred to will be refinanced by securites issued under the authority of the 1947 Refunding Act.

Mr. HAZEN: Do I understand that it is to retire certain obligations that are falling due this year?

Mr. COOPER: Not necessarily this year, they fall due in the next four years.

Mr. HAZEN: Are they shown in the tables here?

Mr. COOPER: I can give them to you, Mr. Hazen.

Mr. HAZEN: I was just wondering if they were here.

Mr. COOPER: The annual report only shows the maturity date of them, others are callable, and just by looking at this schedule you would not get the information. If you look at the maturity date possibly you would not find all

the securities which are going to be dealt with in the four-year period, but the principal ones are these; we have $25,000,000 17-year bonds which are due in 1953. They are callable on and after February 15, 1948. I would think that if money remains at its present cost we would call in those bonds and refinance at a lower rate. We have another issue of $20,000,000, 3 per cent bonds, due in 1952 that are callable on or after February 1st, 1948. Then we have an issue of $57,728,000 due in October of 1969—it is a three-way arrangement, it is callable on and after October 1st, 1949; and we have $17,338,000 of 5 per cent, 40-year, due in 1970. That also is a three-way issue which can be called after February 1st, 1950. And this bill which will be or has been introduced is intended to authorize the Canadian National Railways to issue new obligations to re-finance these maturing or callable obligations.

Mr. HAZEN: Are you able to get your hands on any of the perpetual bonds?

Mr. COOPER: No, sir, you cannot; a perpetual bond has no maturity date and is not callable.

Mr. HAZEN: No, and they do not come on the market, that is the only way in which you could get hold of them at all.

The CHAIRMAN: Mr. Hatfield, you have a question.

Mr. HATFIELD: I was trying to ask if they were all 3 per cent bonds?

Mr. VAUGHAN: Some of them are at a higher rate.

Mr. COOPER: There are $57,000,000 of 5 per cent and $17,000,000 of 5 per cent.

Mr. JACKMAN: Do I understand that this fresh appropriation of $9,000,000 —what appropriation is Mr. Hazen speaking about? Is it that item for retirement, $6,969,000-odd?

Mr. HAZEN: Yes.

Mr. COOPER: That is part of it.

Mr. JACKMAN: Are you anticipating those maturities which become callable in future years or are you just looking after 1947?

Mr. COOPER: I am speaking of both. I believe they aggregate over $200,000,000; that is the amount which will be needed to take care of our maturities and callable securities for the period of 1947 to and including 1951. It is a four-year program.

Mr. JACKMAN: In other words, you are going to take advantage of the present very low rates by doing your long-term financing now and getting the money when it is at a low cost point—

Mr. COOPER: No, we shall only issue new securities as of the date the old securities mature or are called. We will not secure funds in advance of need.

Mr. JACKMAN: What I was getting at is this, you have a right to call some of these bonds ahead of the maturity date, some of these issues which I mentioned. I was wondering whether or not you were going to ask authority to anticipate your needs for the next three or four years when you can now get money at what might be considered a low rate. Of course, the money market might go against you over the next three or four years, or it might continue in your favour; in which case it would be worth while anticipating a call.

Mr. VAUGHAN: No, sir; we have no such intention. That would mean that we would have a whole lot of cash on hand and probably have to loan it out at call rates at a very low interest. We think we will be better off to wait until these securities either mature or become callable then issue securities at a lower rate to replace them.

Mr. JACKMAN: That would be all right so long as the lower rate continues.

Mr. VAUGHAN: That is the chance we will have to take. The Act which is before you, or which is to come before you, is similar to other Acts which

have been put through the House on previous occasions to take care of maturing securities. I think the authority we had has been pretty well used up and that is the reason for this new Act.

Mr. JACKMAN: What would you think of giving consideration to the fact that we can perhaps call $100,000,000 worth of bonds over the next three or four years and for that purpose borrowing the money now at the present low rates—

Mr. VAUGHAN: What would we do with the money?

Mr. COOPER: There is no assurance that rates will not come down.

Mr. JACKMAN: No, but I was thinking that you might take the advice of the Bank of Canada.

Mr. VAUGHAN: We co-operate very closely with the Bank of Canada in our various financial transactions and take their advice on trends, and get all the useful information we can to be of assistance in helping us to judge as to when is a proper and suitable time to issue securities, when we can obtain the best rates for them.

Mr. JACKMAN: I was just wondering because of the nature of these companies, and the question of tying in with government finance, if you could get rid of $100,000,000 of 3 per cent obligations inside of the next three or four years; if the money could be usefully employed as an off-set against some of your debt to the government now by assuring yourselves of a rate of ·68 or something of that nature—do you not think there might be some value in considering such a suggestion?

Mr. COOPER: I do not think so, Mr. Jackman. That is a matter of opinion.

Mr. JACKMAN: Is there no place where you could use that money as an off-set in the government accounts?

Mr. COOPER: I do not believe there would be any advantage to the railway in doing as you suggest, borrowing $100,000,000 and holding it until it is needed and taking a chance on an upward swing of money rates, a possible increase in what we would have to pay for money.

Hon. Mr. CHEVRIER: I can imagine what would happen in the House if the Canadian National Railways were to do that, particularly with respect to one section of the House. There would be great opposition to it.

Mr. JACKMAN: It might make a considerable saving in money to the company. You owe the government a great deal of money and you are being charged 3 per cent or more for it.

Mr. COOPER: Having paid it back to the government we would not be able to re-borrow it.

Mr. HAZEN: If you were called upon to pay $18,400,000 to Trans-Canada Air Lines this year for shares of stock where would you obtain the money? You do not appear to have budgeted for that in this statement which appears to be only a summary of financial requirements. If you were called upon to put up that money, where would you get it?

Mr. COOPER: Our authority for financing the Trans-Canada Air Lines is contained in the Trans-Canada Act. The Trans-Canada Act authorizes that company to issue $25,000,000 in share capital. It authorized the Canadian National Railways to subscribe for that capital and to issue Canadian National obligations to finance it.

The CHAIRMAN: That was passed two years ago.

Mr. COOPER: Yes.

Mr. MUTCH: Do I understand the method of refinancing would be a new bond issue?

Mr. COOPER: Yes. For example, we made an issue in January of this year of $50,000,000, 2¾ per cent bonds. Some portion of that issue was to finance our investment in Trans-Canada Air Lines.

Mr. NICHOLSON: In connection with item 3(a), stations and station facilities, I wonder if we could have information with regard to the amount which was budgeted last year?

Mr. HAZEN: Those bonds which you issued, $6,000,000 of bonds, was that this year?

Mr. COOPER: The $50,000,000?

Mr. HAZEN: Yes.

Mr. COOPER: They are dated January 2, 1947.

Mr. HAZEN: They are not shown then in this report?

Mr. COOPER: No, sir, it is 1947 business.

Mr. NICHOLSON: How much of the money budgeted last year for stations and station facilities did you actually spend?

Mr. COOPER: The budget estimated $1,516,000 and we spent $658,000.

Mr. NICHOLSON: Was that due to a shortage of materials, would that be the reason?

Mr. COOPER: The same explanation which I gave with respect to the budget as a whole would apply, namely, a shortage of material and labour and the fact we receive authorization for work which may not be done or which may not be completed within the year.

Mr. NICHOLSON: In arriving at the amount you have set for different regions, have you any special policy? Do you rebuild stations that are lost through fire or where there is no heated storage or what?

Mr. VAUGHAN: We do not deal with the matter by regions, we deal with the need in the case regardless of where the station may be located. If we think a station needs replacing badly, whether it is in the Atlantic, Central or Western regions, we deal with it on its own merit. We have no allocation for stations by regions.

Mr. NICHOLSON: For the western region, you estimate $1,313,000. At this stage, you have decided certain new stations are to be erected. How do you arrive at this amount?

Mr. VAUGHAN: We can get you the details of that.

Mr. NICHOLSON: I do not want individual cases, I wondered how you arrived at this amount.

Mr. VAUGHAN: There are four pages in this statement, Mr. Nicholson, which contain all the work for the Western Region. For instance, at Winnipeg, there is the installation of four new elevators. I might read the item. The first item is Winnipeg,

> Installation of four new elevators, two to operate from ground floor to fourth floor, and two to operate from basement to fourth floor, replacing present four deteriorated elevators in passenger stations. Total cost $163,000, spread over two years, of which $87,000 will be required in 1947 and $76,000 for 1948. Construction of central heating plants required to replace four deteriorated plants now used for heating the Union station, the engine shed in east yard, the Fort Garry hotel and the immigration building, all of which are located in close proximity to each other, and effect estimated annual savings in heating costs of $35,880.

Then, we come to Edmonton. There is an item of $17,000 for Edmonton for some construction work. Here is anothed item of $403,000. We are doing some work on the station at Edmonton, as you know.

Then, we have Red Lake Road, $17,000. A new highway has been built by the province of Ontario up into the Red Lake district which commences at our line and we are putting in facilities there to handle the freight to and from trucks.

We have an item for Sheraton, B. C., to construct a freight and passenger station to replace a deteriorated third class station. I think that is really a credit account. It is because the new unit is of less value than the old one.

For the Dauphin subdivision there is an item for a new station at Birch River and a new station at Endeavour. There is an item for a new station at Pine Falls and one at Carrot River. There is an item for the construction of a twenty-foot extension to the station building at Kindersley.

Mr. NICHOLSON: I was particularly concerned with finding out how long one has to wait before it is decided a new station is essential?

Mr. VAUGHAN: It is just a matter of the judgment of our officials as to how badly a new station is needed.

Mr. NICHOLSON: And the amount of business which is done?

Mr. VAUGHAN: The amount of business which is done and the condition of the station.

Mr. MOORE: Is anything going to be done about a new station at Minitonas.

Mr. VAUGHAN: I do not see any mention of Minitonas.

The CHAIRMAN: What about the operating budget on pages 1 and 2.

Mr. MUTCH: Could we proceed by pages?

The CHAIRMAN: Page 1 carried? Page 2?

Mr. HATFIELD: On page 2, net income charges excluding interest, $8,000,000. Of what does that consist? You do not pay income tax do you?

Mr. VAUGHAN: No, sir.

Mr. COOPER: It takes care of taxes, equipment rents, joint facility rents. discount on funded debt, dividend income, operating income, interest, the results of separately operated properties and items of that sort.

Mr. HATFIELD: The Prince Edward Island Car Ferry is handled under a separate item. I fail to find that account in the report. Is it in there?

Hon. Mr. CHEVRIER: It is a separate item in the estimates and is dealt with in the Committee of Supply. It is taken from the Committee of Supply and brought here for consideration. It will be dealt with after these gentlemen have finished with their budget.

Mr. HATFIELD: Is it your intention to do anything more about building storage warehouses at Tormentine?

Mr. VAUGHAN: No, sir, it is not at the present time.

Mr. HATFIELD: I should like to point out that I believe 75 per cent of your carloadings from Prince Edward Island consist of potatoes and turnips, is that not right?

Mr. VAUGHAN: I believe so, yes.

Mr. HATFIELD: You will find, unless storage places are built at Tormentine you are going to lose 50 per cent of that business within the next two or three years. Steamers will call at Charlottetown, Summerside and two or three other ports, at which places they will load potatoes off trucks. You will lose that business the same as you lost the newsprint business at Three Rivers and at other places where you used to haul to Portland. Steamships are coming into these ports now and taking the newsprint right from the mills. The same thing is going to take place in Prince Edward Island unless storage houses are built.

As soon as it appears that the growers of Prince Edward Island can get cheap storage at Tormentine, then they are going to load these potatoes in the fall of the year, at harvest time, ship them to some storage by water where they can get a cheap rate. The rate is very high in the United States.

In the future, our potato business is going to be done with the United States and the South American countries. It will be a water haul. I do not believe you will be able to retain this business unless you do something about it.

Mr. VAUGHAN: We will be glad to have our tariff department look into it and have a report made on it.

Mr. HATFIELD: You see, during the war years, practically 100 per cent or 90 per cent of this business has been a rail business. Before the war, only about 50 per cent of it was a rail business. The growers were shipping potatoes down to Port Newburg, Philadelphia, Baltimore and Norfolk. This will likely happen again as soon as steamships are available.

Mr. VAUGHAN: The potato shippers will ship potatoes via the cheapest route, no matter whether we have warehouses available or not.

Mr. HATFIELD: No, I think if you had warehouses available they would be used. Then you would have the rail haul to Halifax or Saint John at least.

Mr. VAUGHAN: We have a somewhat similar situation in various parts of the country such as the Okanagan Valley and the Niagara district from which fruit is shipped. If we are to provide warehouses for shippers of food products all over the country, it would be an endless expense.

Mr. HATFIELD: No, this is a different situation. You have a territory which is blocked by ice at various times of the year. These potatoes will be taken somewhere easy of access, so that when the growers have an order to ship seed potatoes they can get at them at any time of the year.

The CHAIRMAN: Is there anything else on page 2?

Mr. McLURE: On page 2, operating revenues, item (c), "Payment of deficit in the operation of P.E.I. Car Ferry and Terminals." I have always taken serious objection to the use of this word, "deficit". In 1926 it was suggested by the Rae Duncan Commission that the bookkeeping operations should be taken out of the hands of the Canadian National Railways. This was done and it was kept as a separate account. This should not appear as a deficit because it is rather a bad advertisement and associates itself with Prince Edward Island. I have suggested all along an item such as this should appear, "Operating payment on dominion owned ferry and terminals at Borden and Tormentine."

Mr. VAUGHAN: I think if that wording is objectionable to you, we could perhaps do something about it.

Mr. McLURE: It would not do any harm to the item.

Mr. VAUGHAN: The wording expresses the situation.

Hon. Mr. CHEVRIER: I suppose the Hudson Bay Railway people will want the same thing. They have a similar situation up in that part of the country.

Mr. MUTCH: As a matter of fact, we will insist upon it.

The CHAIRMAN: Are there any other questions on page 2? Page 3, additions and betterments?

Mr. HAZEN: How many additions or betterments are to be made to the line which runs to Portland?

Mr. COOPER: I do not see anything in our budget for the line to Portland, that is, from the international boundary line down to Portland.

Hr. HAZEN: Does that come under the central region?

Mr. WALTON: Central region, Montreal district.

Mr. HAZEN: This Central Vermont railway, what is that?

Mr. COOPER: It is a subsidiary company of the Canadian National Railways. The Canadian National owns all the capital stock of that company, but it is operated as a separate railway.

Mr. HAZEN: Between what points does it run?

Mr. COOPER: It runs from St. John's, Quebec, down to New London, Connecticut.

Mr. HATFIELD: Are the old sheds at Portland covered by insurance?

Mr. VAUGHAN: We cover them in our own fund.

The CHAIRMAN: Are there any other questions on page 3, gentlemen?

Mr. EMMERSON: I notice that the budget for 1947 for the Atlantic region is very small in comparison with some other regions. Is it considered that betterments and additions are not required on the Atlantic region to the extent they are on the other regions?

Mr. VAUGHAN: That is not the reason, the mileage on the Atlantic region is very much less than the mileage on either of the other regions.

The CHAIRMAN: Then, gentlemen, we have this long list on page 3(*a*). Are there any questions on that?

Mr. NICHOLSON: On page 3(*a*), under the item docks and wharves, we find you have a credit of $4,000 to the Western region. Could I have some explanation as to how it happens there is a credit under that item to the Western region?

Mr. VAUGHAN: We will ascertain that.

Mr. HATFIELD: There is an item here of $750,000 for an office building in the Central region, what is that?

Mr. VAUGHAN: That is the item we discussed the other day, the new International Aviation building. That is the amount we expect to spend this year on that project.

Mr. COOPER: The item of $4,000 under docks and wharves on the Western region is in connection with the trestle at Port Arthur.

The CHAIRMAN: Are there any other questions?

Mr. EMMERSON: What about this one item in the Western region which seems to be a credit of $162,000 under the heading of general additions and betterments and contingencies?

Mr. COOPER: It was principally due to a provision for the retirement of properties. In the operating department, the budget anticipates a retirement of property to the extent of $125,000 and in the mechanical department of $35,000.

The CHAIRMAN: Are there any other questions on page 3(*a*)?

Mr. JACKMAN: Mr. Emmerson is interested in how it happens to be turned into a credit item in the budget.

Mr. COOPER: If we take down a piece of property, retire it and it is not replaced we write it out of our property account. It is a credit to the capital account.

Mr. JACKMAN: That is how it happens to be a credit item?

Mr. COOPER: Yes.

The CHAIRMAN: Page 4? Page 5, new railway construction? There is a map on page 5. Page 6, the acquisition of securities and retirement of capital obligations in connection with these different railroads?

Mr. JACKMAN: I still cannot think out very clearly the suggestion I made about borrowing some money from the public in advance of your right to call in the near future, so all I can do is think out loud on the subject. You have no premium to pay on those bonds you will be allowed to call over the next few years.

Mr. VAUGHAN: There is a premium on most of them.

Mr. JACKMAN: A premium on most of those bonds you have a right to call over the next few years?

Mr. VAUGHAN: They are callable over par.

Mr. JACKMAN: Generally speaking, you would get rid of the 3 per cent charge.

Mr. COOPER: The $57,000,000 of 5 per cent bonds due in 1969 are callable, but there will be a premium to pay if they are called between October 1949 and 1954. We would have to pay $105.

Mr. JACKMAN: That is a certainty, you will call those.

Mr. COOPER: I would say so. The other big one is $17,338,000 of 5 per cent bonds due in 1970. They are callable at February 1, 1950 at $105. Both of these two issues are threeway bonds, that is to say, they are payable in Canadian currency, U.S. or Sterling. As things stand, there is not the slightest doubt we shall call.

Mr. JACKMAN: Then you have $25,000,000 due in 1953.

Mr. COOPER: There is no premium on those bonds nor on the $20,000,000 at 3 per cent due in 1952, callable after 1948.

Mr. JACKMAN: You could get permission to call them now?

Mr. COOPER: I do not think there is any possibility of calling them before their callable date.

Mr. JACKMAN: No, I realize that, but the reason for raising the question is whether you think the interest rate is going down or whether you believe we have reached the low point in interest rates.

Mr. VAUGHAN: It is a difficult matter to decide. It is a matter of judgment. We believe it would not be wise for us now to borrow a considerable sum of money in anticipation of needing it in 1949.

Mr. JACKMAN: All I am trying to do is calculate whether you should not be satisfied to get, let us say, a 2⅔ per cent rate on long term bonds, even though you will not be able to use the money for repayment to the public for a period of two or three years. What would you do with the money in the meantime? I was wondering whether or not you could not repay the government some of the loans you have, some of which are charged at 3 per cent.

Mr. VAUGHAN: Three and a half per cent, but we are hoping to have those cancelled.

Mr. COOPER: We did, in 1917, as I mentioned, make an issue of $50,000,000. Of that, $42,000,000 was paid to the government in discharge of loans on which we were paying 3½ per cent. There is also this point to be considered, the Canadian National is not in a position to go into the money market at any time it sees fit. It would be guided in that respect by the financial officers of the government and the Bank of Canada.

Mr. JACKMAN: I was wondering what would happen to the money if you raised it from the public now and took advantage of the low rate. Then you could turn the money over to the government in extinction of the 3½ per cent charge.

Mr. COOPER: We have no more 3½ per cent loans other than the repatriated securities.

Mr. JACKMAN: As a matter of policy, you do not want to touch those.

Mr. COOPER: No, we do not.

Mr. HATFIELD: What about the steamships in the item of capital budget, where would they operate?

Mr. Vaughan: They are going to be used in the West Indies trade. Some will be used in the Jamaica trade and some to other West Indies Islands such as Bermuda, Saint Kitts, Nevis, Montserrat, Dominica, Saint Lucia, Barbados and Demerrara, Trinidad.

Mr. Hatfield: From which ports will they sail?

Mr. Vaughan: Montreal in the summer-time and Halifax and Saint John in the winter-time.

Mr. Hatfield: It has been the plan to send a steamer out of Saint John into Halifax and keep it at Halifax two or three weeks before it sails. Now, that is rather poor service.

Mr. Vaughan: Some of the steamships partially discharge at Saint John and then go to Halifax to finish discharging and load up cargo again.

Mr. Hatfield: It does not take two weeks to discharge and load if you have good weather.

Mr. Vaughan: I assure you, they are discharging and loading just as quickly as we can possibly get the work done by stevedores.

Mr. Hatfield: Goods which might be shipped to Saint John would be shipped to Halifax at extra cost in order to get away from that delay, especially perishable food. I was wondering about that delay between Saint John and Halifax.

Mr. Vaughan: The boats coming from the south put in at Saint John to discharge cargo, and then go on to Halifax. We believe it works out very well from an economical standpoint.

Mr. Hatfield: Is the treaty with the West Indies still in effect?

Mr. Vaughan: The treaty has expired.

Mr. Hatfield: Is there any reason why your boats should not go on to LaGuaira and other points? They go within probably one hundred miles of Trinidad, Port of Spain, but they could not go on farther on account of the West Indies treaty then in effect. A large part of the business of Saint John is carried on with Venezuela. You come within 100 miles of it, but you cannot go to Venezuela because of the West Indies treaty. If that treaty has expired, why can you not go the other 100 miles and call at the Port of LaGuaira.

Mr. Vaughan: Our boats are fully occupied in the trade in which they are now engaged. If we were to call at various points outside of British Guiana, we would have to have more boats.

Mr. Hatfield: That might have been so during the war years, and, no doubt they are full now, but it might not be so in the future.

Mr. Vaughan: We have had no demand of which I know, to call at Venezuela.

Mr. Hatfield: Yes, I have applied for it at different times.

Mr. Vaughan: There are other local steamship companies operating out of Saint John and perhaps they make the call.

Mr. Hatfield: There are other steamship companies and it is only likely they call at Venezuela. However, you go down there almost to LaGuaira where the big business is, but you stop short of it. Your excuse was that the West Indies treaty was in effect, but now I do not know what the excuse is. At that time, your boats went down half loaded. I cannot see now why they do not go to Venezuela.

Mr. Vaughan: Do I understand you to say it was due to the trade agreement that we could not make the required call.

Mr. Hatfield: That was the excuse at the time, but that agreement has expired. I do not see why you should not take in Cuba on the way down.

Mr. VAUGHAN: We have not sufficient boats to call at all those places. Our boats are now going down there fully loaded.

Mr. HATFIELD: Were all the Lady boats sunk during the war?

Mr. VAUGHAN: There were three sunk and two were left, the *Lady Nelson,* which was used as a hospital ship and the *Lady Rodney* which was chartered as a troop ship. One is in Halifax and one in Saint John now being rehabilitated.

Mr. McCULLOCH: How soon will the *Lady Nelson* start running?

Mr. VAUGHAN: I do not think she will be running before the end of June.

Mr. HATFIELD: You might fill your boats now, I know it is hard to get space, but that condition is not going to last

Mr. VAUGHAN: We will look into that situation.

THE CHAIRMAN: If that is carried, gentlemen, would you like to have Mr. Cooper saiy something about the operating budget of West Indies Steamships?

Mr. NICHOLSON: Mr. Chairman, before we leave the matter of the railways, Mr. Knight was discussing the Hudson Bay Railway situation in the House and the minister made reference to the fact that some questions could possibly be asked before this committee. Mr. Knight is not a member of this committee, but he is here and I wonder if the committee would consent to his being accorded the privilege of asking a few questions about the Hudson Bay Railway before we go on with the West Indies Steamships?

Mr. JACKMAN: We have no statement relating to the Hudson Bay Railway company before us, have we?

Hon. Mr. CHEVRIER: There has been no reference of the Hudson Bay Railway to this committee this year.

Mr. JACKMAN: I though that was a permanent arrangement.

Hon. Mr. CHEVRIER: No, it is not.

Mr. JACKMAN: Then I move that the Hudson Bay Railway account be referred to this committee this year.

Hon. Mr. CHEVRIER: I am afraid it is now too late for the government to entertain such a motion. In any event, that is a motion which should be made in the House.

Mr. JACKMAN: It was definitely understood, I thought, that we would have an opportunity of examining into this Hudson Bay Railway matter.

Hon. Mr. CHEVRIER: It has not been the practice to refer the Hudson Bay Railway accounts to this committee. I believe two years ago at your request we had Mr. MacLachlan, the general manager of the line, come down from The Pas, and he was examined. We have no objection to answering any of these questions. I am not sure any questions will be asked, but if any are I should be happy to do my best to provide an answer.

Mr. JACKMAN: I think on two years we heard Mr. MacLachlan?

Hon. Mr. CHEVRIER: Just one year.

Mr. JACKMAN: Did we not have the accounts a second year?

Hon. Mr. CHEVRIER: No, just one year. This is an item which will be up in committee of supply and should be discussed there, and can be discussed there at any time very fully.

Mr. JACKMAN: But Mr. Howe, who was minister at the time was quite agreeable to having that statement presented.

Hon. Mr. CHEVRIER: It was not done in Mr Howe's time, I am informed.

THE CHAIRMAN: So far as I am aware they are not before the committee for discussion.

Mr. JACKMAN: Is there any objection to having the Hudson Bay statement taken up here?

Hon. Mr. CHEVRIER: There is no objection to giving all the information that is available, but there would be objection at this stage to bringing the general manager of the railway down here. Is there any objection on the part of the committee to hearing Mr. Knight?

Mr. JACKMAN: May I ask what the result of the operation of the Hudson Bay Railway was last year?

Mr. VAUGHAN: We haven't got the figures here.

Hon. Mr. CHEVRIER: I can give you the figures; the results of the operations for 1946-47 was a deficit of $466,883. That is the difference between the expenditures for operation and maintenance, and the revenue; The estimated deficit for 1947-48 is $525,000.

Mr. JACKMAN: Could we have the details of that? How was the deficit paid? Where did they get the money to take care of that?

Hon. Mr. CHEVRIER: That is an item which can be taken up when the item is up for discussion in the House.

Mr. JACKMAN: Is there an item in the estimates with respect to that?

Hon. Mr. CHEVRIER: Yes, there is an item on it in the estimates and it will be up for discussion in committee of supply in the House.

Mr. MUTCH: To the best of my recollection the matter is one which has always been taken up in the House for discussion on previous occasions.

The CHAIRMAN: What is your pleasure, gentlemen? Mr. Knight is here. I know that no one wants to curtail the discussion. Is it agreeable to the committee that we should allow Mr. Knight to take a few minutes on this matter with the hope that he makes his remarks as brief as possible? It really is not on our agenda. What is the feeling of the committee? I certainly do not want to be arbitrary in the matter in any way.

Mr. NICHOLSON: I move that Mr. Knight be permitted to proceed.

The CHAIRMAN: Is that agreeable, gentlemen?

Agreed. Mr. Knight, will you proceed.

Mr. KNIGHT: Mr. Chairman, and gentlemen: I thank the committee for their courtesy in allowing me to ask these questions, although my presumption was that I had the right so to do. Perhaps I was mistaken in that. If I was I was misled by the statement of the minister—

Hon. Mr. CHEVRIER: Well now,—

Mr. KNIGHT: —who suggested that I should ask questions before this committee.

Hon. Mr. CHEVRIER: When you say that it was I who suggested that, I do not think you are quite correct. A member of the committee may ask questions, but Mr. Knight is not a member of the committee and cannot ask questions unless he has the permission of the committee so to do.

Mr. KNIGHT: I am thanking the committee for that permission, and I am thanking the committee for the courtesy extended. I do not know whether I am supposed here to express opinions or merely to ask questions.

Hon. Mr. CHEVRIER: I think you had better limit yourself to questions, Mr. Knight.

Mr. KNIGHT: I was going to answer Mr. Jackman's suggestion in regard to the deficit reported on this road and offer a suggestion as to how it could be wiped out. However, that is not a question, and as I see it it is unfortunate because I thought perhaps the details would be rather a matter of interest to some members of the committee.

Hon. Mr. CHEVRIER: If it has to do with details of operation it may be that the general manager is the only one who can give you the information; but go ahead, we will see how far we can go.

Mr. KNIGHT: Is there a way by which these questions can be registered and submitted?

Hon. Mr. CHEVRIER: Yes. Any information we are able to give we will be glad to give you here, and we will be glad to get whatever information we can for you.

Mr. KNIGHT: I think it would be too bad to put the company to the expense of bringing the general manager down here to answer one of two such detailed questions as I have. I may say that I only knew half an hour ago that there was a chance of my being able to appear before this committee.

Mr. MCCULLOCH: Carry on.

Mr. KNIGHT: I wanted to ask first of all where the cattle pens at Churchill, the material, the lumber that was in them, is? I refer to the pens there which were used for the housing of cattle, and I wanted to ask that question.

Hon. Mr. CHEVRIER: That question was put on the order paper and answered there. I do not remember what the answer was that I gave at the time but my recollection is that they were torn down and sold to the American army.

Mr. KNIGHT: And was compensaton received in full and the amount recorded?

Hon. Mr. CHEVRIER: Yes.

Mr. KNIGHT: What I am interested in, are the necessary repairs being made at Churchill, that also applies in connection with the cattle pens; are full facilities available for the activities for the coming season, 1947? That was my next point.

Hon. Mr. CHEVRIER: I do not think this committee can give you that information. We will have to get it from the National Harbours Board, under whose jurisdiction the port of Churchill comes.

Mr. KNIGHT: If you will look into it.

Hon. Mr. CHEVRIER: A note is being made of your questions as we go along.

Mr. KNIGHT: Right. I wanted to ask a question about—I do not know whether this should be on the record or not, I think it is an important matter and it is one that I brought up before, it deals with accommodation at that port. The matter I want to talk about is the toilet accommodation and I refer to the accommodation at the port, not at the elevator. As I said, I did not know that I would have an opportunity of appearing here, but I wish you would take that up with the officials and talk to them about it.

Then there is the matter of the elevator and sheds. I presume those are for handling rather than for storage purposes. The point I want to make is that to make this port successful it is necessary that wheat be moved through it. There is no possibility of assuring wheat in sufficient quantity at that port to make it pay and in that way take care of the deficit, this operational deficit of which Mr. Jackman has spoken. The point I am trying to make is this; I would assume that it was necessary that wheat be kept in a strategic position so that the port may do away with this deficit. It is not enough just to keep the elevator at that port filled, you will have to have a volume of shipments through and out of that port if you expect the railway to pay. I would like to ask this, is it possible to load one ship a day under present conditions at that port; also, would it be possible to load a ship and a half per day for the full period for which marine insurance rates are available?

Hon. Mr. CHEVRIER: You know, Mr. Knight, that the shipping season is very short, some fifty or sixty days.

Mr. KNIGHT: What shipping season does the minister refer to, is it the marine insurance season?

Hon. Mr. CHEVRIER: I am referring to the shipping season at the port of Churchill during which ships will go there because of the protection from insurance, and it is only, if I remember right, some five or six weeks. Last year there were nine or ten ships loaded wheat. I have a statement on that which I will place on the record.

SHIP LOADINGS AT CHURCHILL

Year 1946

Sailing Date	*Name*	*Contents*
August 15th	S.S. *Revelstoke Park*	335,000 bus. Wheat and 101 tons Lumber
" 18th	S.S. *Hillcrest*	329,000 " " " 424 " "
" 20th	S.S. *Essex Trader*	345,000 " "
" 22nd	S.S. *Dalcross*	304,000 " "
" 24th	S.S. *Whiteshell Park*	335,000 " " and 110 tons Logs
Sept. 11th	S.S. *Belwoods Park*	241,759 " " " 450 " Lumber—2,200 tons Flour
" 19th	S.S. *Revelstoke Park*	347,500 " "
" 24th	S.S. *Fort Richelieu*	347,200 " "
" 25th	S.S. *Hillcrest Park*	344,416 " "
		2,928,875 bus. Wheat

I did not want to interrupt you but these are all matters which affect the National Harbours Board and not the railway. This committee has no reference to discuss Harbours Board matters, just railway matters.

Mr. KNIGHT: May I ask where I am to get the information?

Hon. Mr. CHEVRIER: If you want to write to me about it I shall be glad to get it for you.

Mr. MUTCH: Mr. Chairman, I know the particular interest that western members have in this matter, but I would point out with respect that the questions which have been asked so far are questions which should be taken up when the estimates for the Harbours Board and the Hudson Bay Railway vote are up in committee of supply.

Hon. Mr. CHEVRIER: Yes.

Mr. MUTCH: For the protection of yourself, Mr. Minister, and the other members of the committee, it should be on the record that these questions have no bearing on the matter which is before this committee.

Hon. Mr. CHEVRIER: I hesitate to instruct any member on his rights and obligations, but this is a committee which is dealing with the reports of the railways, the budget and the securities trust; and, from the notes which you have it looks as though you were going to go on for some time.
obligations, but this is a committee which is dealing with the reports of the railway and ask a few questions about that?

Hon. Mr. CHEVRIER: Well, let's see how it goes.

Mr. KNIGHT: I would like to find out if it has been anybody's business to hunt up traffic for what we call the Hudson Bay Railway?

Hon. Mr. CHEVRIER: I presume it is the business of the general manager of any railway to endeavour to get business for that railway—

Mr. MUTCH: They probably have a traffic department.

Hon. Mr. CHEVRIER: And as Mr. Mutch points out, they have a traffic department.

Mr. KNIGHT: Is it the sole duty of the general manager to look after the management of the Hudson Bay Railway, or has he certain functions to perform in connection with the C.N.R. at the same time?

Hon. Mr. CHEVRIER: No, I understand his duties are exclusively those of general manager of the Hudson Bay Railway.

Mr. VAUGHAN: That is correct.

Mr. KNIGHT: Would you say that the Canadian National Railways have been benevolent, as it were, to the Hudson Bay Railway; or might it be considered the reverse, might it be considered a rival of the Hudson Bay Railway?

Mr. VAUGHAN: No, sir; it is not a rival. I think the Canadian National is benevolent to the Hudson Bay Railway.

Mr. KNIGHT: If I might make one statement, I want to assure the committee that I am not at all antagonistic in this matter but these things are constantly broached to us western members. People out there are constantly asking us questions about these things and I want to get some answers on the record. And now, as to the rates on the Hudson Bay Railway: are they set by the C.N.R. or are they set by the Board of Transport Commissioners? I think someone said that the Board of Transport Commissioners have no power to set rates over that route.

Hon. Mr. CHEVRIER: That is right. I understand they have no jurisdiction over that railway.

Mr. KNIGHT: Is the general manager charged solely with the operation of the railway—does the rate which is charged apply solely to the operation of the line from The Pas through to the port of Churchill?

Hon. Mr. CHEVRIER: Yes. I understand the rate paid is low.

Mr. VAUGHAN: That is right.

Mr. KNIGHT: The Hudson Bay Railway is listed as being under construction. Would somebody explain what the significance of that term is in regard to shall we say overhead charges? I confess to being very ignorant on this matter. I am here for information.

Hon. Mr. CHEVRIER: It has no relation, I am informed, to overhead charges whatever.

Mr. KNIGHT: No relation to overhead?

Hon. Mr. CHEVRIER: No.

Mr. KNIGHT: Then will you tell me this, most people are led to believe that the line has been completed, why is it still listed as being under construction?

Hon. Mr. CHEVRIER: I am afraid I cannot answer that, other than to say there may be certain advantages to the locality.

Mr. WALTON: Mr. Minister, that is a feature which I think might have some bearing.

The Hudson Bay Railway owns no locomotives or cars of its own, they are rented from the Canadian National as and when required. All repairs are taken care of by the Canadian National and if they are taken out of the construction classification and are listed in the official guide and elsewhere, in the official equipment register, as a railway in operation there is the question of the ownership especially of cars in relation to the general car pool. I think that has some bearing on it.

Hon. Mr. CHEVRIER: Do you think the railway should be under the jurisdiction of the board? Is that what you are representing?

Mr. KNIGHT: No. I am not expressing any opinion. I wanted to know what the significance of that term was. Another point; grain going down the C.N.R. has a cheaper rate, do you call that the import-export rate? I am not

so familiar with these terms; at any rate, I do know there is a cheaper rate down to The Pas; and I understand there is a separate rate which applies from The Pas to the Fort.

Mr. VAUGHAN: I really do not know what is meant by that statement. The Hudson Bay railway has variable rates into Churchill.

Mr. KNIGHT: What I wanted to get at was a comparison, an assurance that the rates that are being charged on the grain going down to The Pas—they are certainly not too high; but how about the rate per bushel from The Pas in to the quay?

Mr. VAUGHAN: We cannot say that offhand. These are all questions on which we will have to prepare replies. If you would care to submit these questions we would be very glad to give you answers, particularly in so far as they may relate to the Canadian National Railways.

Hon. Mr. CHEVRIER: I am told that is a through rate.

Mr. KNIGHT: It is a through rate?

Hon. Mr. CHEVRIER: Yes.

Mr. KNIGHT: I had one or two other questions but I will not take the time to develop the matter further at the moment. May I say that I should not be apologizing for asking these questions. These are questions which are of vital interest to our people in the west. My next question is this: How many bushels of grain would you require to handle in 1947 to wipe out the operating deficit on that road?

Hon. Mr. CHEVRIER: About 15,000,000 bushels, I am informed, Mr. Knight.

Mr. KNIGHT: 15,000,000 bushels! What I had in mind was giving that railway a fair chance to operate.

Mr. JACKMAN: I suppose that if the rate is increased a fewer number of bushels would be needed to cover a smaller deficit.

Mr. KNIGHT: Any saving, I take it, would be a saving to the government. I mean, the deficit is charged against the Canadian government now. It would also be a saving to the wheat board, wouldn't it; on account of the charges they would otherwise have to pay let us say if the grain went through the port of Montreal; and there would be a saving to the board shipping—there would be a three-way saving?

Hon. Mr. CHEVRIER: I am not prepared to accept that statement as to whether there would be a saving or not, I do not know.

Mr. KNIGHT: I am not arguing.

Hon. Mr. CHEVRIER: I could not give you an answer to that. I could not say it would be a saving.

Mr. KNIGHT: Would you say it would require thirty or forty ships in and out of that port to ensure successful operation of that road? Of course, that would come under the Harbours Board and it would have a direct bearing on marine insurance. Of course, that is a question which is out of your jurisdiction.

Hon. Mr. CHEVRIER: I suppose a great deal would depend on the load. If the ships were able to bring in a load of freight and could take out a load of wheat then it might be a profitable venture; but if they are not able to bring in any freight and if there is no demand in that part of the country for supplies of the type which these ships are likely to bring, it would have a bearing on the answer to your question.

Mr. KNIGHT: Would the strategic importance of Churchill have any bearing upon the interest, shall we say, of the government in the use of the route?

Hon. Mr. CHEVRIER: It might.

Mr. KNIGHT: Together with the use of the port?

Hon. Mr. CHEVRIER: It might.

Mr. KNIGHT: Well, I think those are the questions I wanted to ask in regard to the railway; and I thank you again for your courtesy and for the information supplied, and for such information as it may be possible for me to obtain.

The CHAIRMAN: With regard to railway information, may I suggest that if you were to write the railway people they would be happy to give you as much of it as they can; and I am sure the Harbours Board, through the minister, would be glad also to give you any information.

Mr. MUTCH: If you want to ask further questions in the House there are two votes, that of the Harbours Board and that of the Hudson Bay Railway, still to come up in the estimates.

Hon. Mr. CHEVRIER: May I just say one thing, Mr. Knight; the practice has always been for a member to ask questions such as yours in the House, and should the occasion arise again, that perhaps would be the quickest way to dispose of them.

Mr. KNIGHT: I may say, Mr. Minister, that I had no intention of appearing. As a matter of fact I only prepared these notes in the half hour since Mr. Nicholson suggested that I appear.

Mr. MOORE: I understand that this question is one that has been under consideration for a number of years. Is there any possibility of the Canadian National Railways taking over and operating the Hudson Bay railway? Would you want to do that, Mr. Vaughan?

Mr. VAUGHAN: No, sir; I would not like to do that.

Hon. Mr. CHEVRIER: I understand there are some advantages to the people in the locality in listing it as under construction.

The CHAIRMAN: Gentlemen, would it be possible to consider West Indies Steamships?

Mr. JACKMAN: Just before we leave the matter of the Hudson Bay Railway, I understand the C.N.R. receive a fee for management; could you tell me what the amount of that is?

Hon. Mr. CHEVRIER: The Canadian National receive a fee of $1,000 per month.

Mr. NICHOLSON: Does the manager of that route have any seniority standing in the C.N.R.?

Mr. COOPER: He would not be in the seniority group at all, supervisory officers do not have seniority.

Mr. JACKMAN: Who fixes the rates on the Hudson Bay Railway?

Hon. Mr. CHEVRIER: What rates are you referring to?

Mr. JACKMAN: I have in mind grain rates.

Mr. VAUGHAN: That would be done to a large extent I would think by the traffic officers of the Canadian National Railways.

Hon. Mr. CHEVRIER: And not under the supervision of the Board of Transport Commissioners?

Mr. VAUGHAN: No.

The CHAIRMAN: Is that all on the Hudson Bay railway? Then, let us proceed with this budget on the West Indies Steamships. Mr. Cooper, would you like to say a few words on the West Indies budget? We have not gone through the report. It is attached here. Would it be agreeable to discuss it now and clean up? That is page 7?

Mr. COOPER: I read that section of the budget.

Hon. Mr. CHEVRIER: I thought the committee might prefer to get on with it now, and then they can take up the report.

Mr. JACKMAN: Did we make more money out of the West Indies Steamships operations last year?

Mr. VAUGHAN: We made more. We have $720,000 in the budget for 1947 as compared to $1,302,000 last year.

Mr. JACKMAN: What is the cause of that; slowing off in traffic, or higher costs?

Mr. VAUGHAN: Higher cost is one thing, and the revenues will be down because last year we operated more boats for other companies and we handled a number of Park boats; more voyages were made last year than this, I mean with chartered vessels.

Mr. JACKMAN: Have cargo rates gone up this year?

Mr. VAUGHAN: Cargo rates did not go up last year.

Mr. JACKMAN: Are you having more competition from lines like the Saguenay?

Mr. VAUGHAN: They are our principal competition, the Saguenay and the Alcoa steamships.

Mr. JACKMAN: How are the rates fixed, by bargaining between the parties?

Mr. VAUGHAN: To some extent; and as far as sugar goes, the rates on sugar northbound are arranged with the sugar controller at Ottawa. All sugar is under control.

Mr. JACKMAN: And you are expecting $720,000 operating net—

Mr. VAUGHAN: Surplus, this year.

Mr. COOPER: Not operating surplus, sir; after the payment of interest. That is over-all profit.

The CHAIRMAN: Well now, gentlemen, shall we take this report and ask Mr. Vaughan to read it?

Mr. MUTCH: Can we not have it put in the record taken as read, Mr. Chairman?

Hon. Mr. CHEVRIER: Someone has suggested that we dispense with the reading of it.

The CHAIRMAN: Shall we do that?

Mr. MUTCH: We have had the report in our hands for nearly a week.

The CHAIRMAN: Perhaps we had better have Mr. Vaughan read it, we have just about time enough left to permit him to do so.

Mr. VAUGHAN:

MONTREAL, March 15, 1947.

The Honourable LIONEL CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

On behalf of the Board of Directors of Canadian National (West Indies) Steamships, Limited, I beg to submit the Annual Report of the Company for the calendar year 1946.

The operating results for the year compare with the previous year as follows:—

Operating Revenues	$6,669,128.45	$4,412,251.34	$2,256,877.11	51·15%
Operating Expenses	4,959,240.08	2,849,091.51	2,110,148.57	74·06%
Operating Profit	$1,709,888.37	$1,563,159.83	$ 146,728.54	

The number of voyages completed was 49 as compared with 23 in 1945. Export tonnage increased 65,446 tons, of which flour constituted the largest increase, 19,515 tons. Import tonnage increased 85,030 tons, largely due to increased sugar tonnage of 60,381 tons. Freight revenue for the year amounted to $5,700,121, an increase of $2,544,407 or 80·6 per cent. Passenger revenue increased from $55,326 in 1945 to $96,727 in 1946, but the limited passenger accommodation fell far below the increasing demands for passage.

Operating expenses amounted to $4,959,240, in increase of $2,110,148. This increase reflects the upward trend of vessel operating costs and cost of cargo handling, particularly at West Indies ports where increased costs have been substantial. Provision was also made in the year's expenses for the cost of overhaul (on owner's account) of the *Lady Nelson* and *Lady Rodney*. These two ships were released in December from their wartime duties and are now in dry dock undergoing reconversion and overhaul preparatory to resuming regular freight and passenger service to the Eastern group of islands.

Net profit from operations for the year was $1,709,888, an increase of $146,728 over the previous year. After adding interest earnings to the operating profit and providing for fixed charges (including interest on government advances) there was an income surplus for the year of $1,302,051. Of this surplus $196,887, being the interest earnings of the vessel replacement fund, was retained in that fund and the balance, $1,105,164, has been paid to the government in reduction of advances made for deficits in the development period 1929-1934.

In line with the decision to dispose of certain of the older vessels, mentioned in last year's report, three vessels were sold during 1946, the *Cathcart, Cavelier* and *Connector*. The proceeds of sale were placed in the vessel replacement fund. Two 4,700 ton cargo vessels of the tween deck (dominion) type were purchased from War Assets Corporation during the year and three other similar "Park" vessels, on bare boat charter to the company at the end of the year, will be purchased in 1947. The first of the three diesel powered cargo vessels being purchased from War Assets Corporation was delivered late in 1946, the remaining two early in 1947. These vessels have a deadweight tonnage of 7,500 tons each, with over 15,000 feet of refrigerated space and a speed of 15 knots. They have accommodation for 12 first class passengers, and 70 deck passengers for inter-island travel. All vessel purchases have been financed from the vessel replacement fund.

At December 31, 1946, the Company owned the following vessels:

	Gross Tonnage	Deadweight Tonnage
Lady Nelson	7,970	6,370
Lady Rodney	8,194	4,665
Chomedy	6,136	8,600
Colborne	6,230	8,650
Canadian Conqueror	2,930	4,532
Canadian Cruiser	6,745	7,460
Canadian Observer	2,967	4,532
	41,172	44,809

In 1947 the fleet will be increased by the three "Park" and two diesel powered vessels referred to above. The *Colborne* has been sold and the *Chomedy* may be sold later in the year. These changes made, the company will own ten vessels with a total deadweight of 56,075 tons.

Acknowledgment is made of the loyal and efficient service rendered by the officers and employees of the company, both ashore and afloat.

For the Board of Directors,

R. C. VAUGHAN,
President.

CONSOLIDATED BALANCE SHEET

AT 31st. DECEMBER, 1946

ASSETS

Investments:			
Vessels		$ 6,687,917.89	
Less accrued depreciation		*3,000,066.19*	
		$ 3,687,851.70	
Vessel replacement fund		5,436,415.73	
Prepayments		135,000.00	
			$ 9,259,267.43
Current Assets:			
Cash in banks	$940,032.70		
Special deposits	12,775.00		
		$ 952,807.70	
Accounts receivable		356,692.96	
Freight, passenger and agency balances		121,130.90	
Inventories		25,218.86	
Advances to captains, crews, etc		17,015.80	
Due from vessel replacement fund		1,814,173.18	
			3,287,039.40
Insurance Fund			1,338,029.09
Discount on Capital Stock			40,000.00
			$13,924,335.92

LIABILITIES

Capital Stock:		
Authorized and issued 400 Shares of $100.00 each		$ 40,000.00
Funded Debt:		
25 Year 5% Dominion of Canada guaranteed gold bonds due in 1955		9,400,000.00
Dominion of Canada Advances		5,059,960.94
Current Liabilities:		
Accounts payable	$ 701,423.10	
Interest matured unpaid	12,775.00	
Unmatured interest accrued	156,666.67	
Passage money paid in advance	20,970.38	
Accrued reconversion and overhaul expense	712,089.86	
		1,603,925.01
Unadjusted Credits		144,002.47
Insurance Reserve		1,338,029.09
Profit and Loss—*Deficit*		*3,661,581.59*
		$13,924,335.92

Note.—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and subsidiary companies for the year ended the 31st December, 1946, and subject to our report to parliament, we certify that, in our opinion, the above consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the steamships as at the 31st December, 1946, and that the relative income and profit and loss accounts for the year ended the 31st December, 1946, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1947.

CONSOLIDATED INCOME ACCOUNT

	1946	1945
OPERATING REVENUE:		
Freight	$5,700,121.21	$3,155,714.43
Passenger	96,726.72	55,325.89
Agency fees, etc	97,436.71	258,869.34
Subsidies	119,587.00	132,235.50
Charter	655,256.81	810,106.18
Total	$6,669,128.45	$4,412,251.34
OPERATING EXPENSES:		
Voyage accounts	$4,427,367.90	$2,397,075.48
Depreciation on vessels	288,092.02	279,466.28
Management and office expenses	209,980.03	166,402.86
Pensions	29,021.99	4,329.72
Other expenses	4,778.14	1,817.17
Total	$4,959,240.08	$2,849,091.51
Operating profit	$1,709,888.37	$1,563,159.83
Vessel replacement fund earnings	*$ 196,887.28*	*$ 216,842.16*
Interest on bonds held by public	470,000.00	470,000.00
Exchange on U.S. funds	8,225.00	50,916.66
Interest on government advances	126,499.02	142,999.42
Surplus	$1,302,051.63	$1,116,085.91

CONSOLIDATED PROFIT AND LOSS ACCOUNT
at 31st December, 1946

Balance at 31st December, 1945—*Deficit*	*$4,963,633.22*
Surplus as per income account, year 1946	1,302,051.63
Balance as 31st December, 1946—*Deficit*	*$3,661,581.59*

The CHAIRMAN: Now, gentlemen, is there any discussion on the balance sheet?

Mr. JACKMAN: Your operating ratio certainly went up a lot last year.

Mr. VAUGHAN: It increased very materially because there was $715,000 provided in the expenses for overhauling two of the "Lady" ships.

Mr. NICHOLSON: Last year as I recall we had considerable discussion about the profit and loss deficit of $3,661,000; has there been any conversation between the company and the government with regard to that matter?

Mr. VAUGHAN: The finance department has declined to make any further adjustment in that. We have made substantial progress in reducing the profit and loss deficit. At the end of 1936 it was $9,078,000, at the end of 1946 it is $3,661,000; so we have wiped out nearly $6,000,000 of that deficit which we do not think should ever have been charged against us.

Mr. NICHOLSON: Would the minister care to make any statement as to why the government takes a stand?

Hon. Mr. CHEVRIER: I am afraid that I shall have to repeat what I have said; that I am of the same view as the Department of Finance and of the same opinion as the government was at the time.

Mr. JACKMAN: Would the minister like to give the reasons why the accumulated deficit in the early years should not be wiped out?

Hon. Mr. CHEVRIER: I think the matter is similar to the one we have been discussing with reference to income bonds; there is a relationship between the two, and the government has not seen fit thus far to adjust certain fixed charges of the railway by accepting income bonds in lieu thereof; and neither has it

decided with reference to the profit and loss account of the steamships; although I think there is a far better case—I speak personally now, of course—for acceptance of income bonds in this case.

Mr. Vaughan: I would like to point out that of the deficit of $3,661,581, $3,353,000 represents interest on deficits.

Mr. Jackman: Is that not excepting part of the operation of 1937 in connection with the railways, wiping out the interest on deficits?

Mr. Cooper: Yes, that was what was done.

Mr. Jackman: It does not seem to me that this case is quite on the same four legs as the other one.

Hon. Mr. Chevrier: I said there was a relationship between the two.

Mr. Jackman: If you carried out the same principle which was carried out in 1937 in connection with the railway, giving it a fair chance, it seems to me the same principle might be applied in connection with the steamships.

Mr. Vaughan: It would probably need an Act to do that. As it happens in this case, we are making pretty good progress in whittling that down. As I say, I do not think it should have been there, but that was a matter for the Department of Finance at the time. I think the Act, as it read or as it does read, required them to charge interest, so it would need a change in the Act to wipe that out.

Mr. Jackman: Perhaps, after the adjournment we could hear from either the minister or the president as to the future policy of the Canadian West Indies Steamship Company.

The Chairman: Very well, can we adopt this report? It has been moved the report be adopted and Mr. Vaughan will perhaps make a statement. Does that meet with your wishes Mr. Jackman?

Carried.

Gentlemen, can we meet at four o'clock? We have not very much work left and perhaps we can get it fairly well cleaned up this afternoon.

At 1.00 p.m. the committee adjourned to meet again at 4.00 p.m.

AFTERNOON SESSION

The Committee resumed at 4.00 p.m.

The Chairman: Now, I think before we adjourned at noon, Mr. Jackman asked Mr. Vaughan for a short statement.

Mr. Vaughan: Last year, I made a rather full statement in connection with the Canadian National West Indies Steamships. We had a good year in 1946 and I think the prospects are fair for 1947. We have almost an entirely new fleet which we paid for from our replacement fund, so that we will have ten modern boats in operation this year and probably one of the older boats. Our returns for the first three months of this year are on a parity with last year. It looks as if there will be plenty of sugar coming northbound for the various steamship companies and there is good cargo offering southbound, both to the eastern and western islands.

Mr. Jackman: What I had in mind, Mr. Vaughan, was while it is true the Canadian National owns—no, it does not own.

Mr. Cooper: The government owns the stock.

Mr. Jackman: The company which you operate as a service to the government.

Mr. Cooper: The directors of the Canadian National Steamships are the same directors as for the railway company, but the stock, in both cases, is owned by the government.

Mr. HATFIELD: Mr. Vaughan, has there been any consideration given to operating of a line to South America in view of the increased trade between Canada and South America? I noticed that within the last two years the Mornac Line has come into Canadian ports and taken your newsprint business for South America away from the railways. They dock their ships near the factories. Has there been any consideration given to having steamships operate on a line to South America?

Mr. VAUGHAN: We have not given that matter consideration recently, Mr. Hatfield, but some time ago we did give consideration to that. We believed that, with the boats we would have available, we could not operate down to South America and give a satisfactory service to the West Indies.

Mr. HATFIELD: I know there will be more boats available. Has not the Park Steamship Company boats available?

Mr. VAUGHAN: Many of them have been sold. I do not know how many of them have been disposed of, but I think the great majority of them have gone. We had an experience somewhat similar following the last war when the Canadian Government Merchant Marine was in operation. We operated a number of steamers down to South America calling at Pernambuco, Rio de Janeiro, Bahai, Montevideo and Buenos Aires. The business was good until Great Britain and European countries built up their Merchant Marine again. After that, our business to South America disappeared.

Mr. HATFIELD: Exports to South America have increased about 100 per cent since then. I do not like to see a foreign company come in, use foreign stevedores and get this business.

Mr. VAUGHAN: There are lines running out of Montreal to South America. I think there are some foreign vessels.

Mr. HATFIELD: I know the Mornac Line operates there. There is a big business down in South America. Our export business is going to be with South America in the future. After two or three years, we are not going to have any export business with Europe. We might as well forget about that.

Mr. VAUGHAN: It is something we will go into again. If there were any prospect of that business being profitable and we had more vessels, we might go into it. We have tried to keep out of the way of privately operated steamship companies.

Mr. HATFIELD: Those steamships which are coming in there and taking this business are owned by the United States government. The United States government started a policy of building ships in about 1936, I think, and having the different steamship companies operate them, provided the companies would follow the trade routes the government designated.

Mr. VAUGHAN: That is correct.

Mr. HATFIELD: We should have followed the same policy.

Hon. Mr. CHEVRIER: We did that with reference to Park Steamships, but most of the vessels were sold and many were chartered.

Mr. HATFIELD: You did that because of the war, but not as a steamship policy.

Hon. Mr. CHEVRIER: As you are aware, Mr. Howe intends to bring down an Act to set up a Maritime Commission. I do not know what the duties of the Maritime Commission would be because I have not seen a draft of the bill, but I presume the commission will have the duty and responsibility of advising the government on trade routes and matters of that kind.

Mr. JACKMAN: What I had in mind was a little more general than what has been stated and perhaps it is a little more relevant to what Mr. Hatfield has said. As I recall, some years ago, we did not seem to be quite certain in our

own minds exactly what the destiny of the Canadian National West Indies Steamship Line was going to be, whether we would continue it under government ownership or expand it or what?

Mr. VAUGHAN: We intend, speaking from the standpoint of the Canadian National Railways, to operate these vessels continuously to the West Indies, the same as if the trade agreements were in effect unless we find later on that we would be sustaining heavy losses. We propose to handle the situation the same as we would if we were a private organization. I do not know what is going to be done about the trade agreements. We are operating now pretty much as if the trade agreements were in existence. As it happens we have plenty of cargo both northbound and southbound.

Mr. JACKMAN: Do I understand correctly that, many years ago, the government was in the steamship business? The government gave up its ownership and operation of the vessels. Then, when these trade agreements with the West Indies were entered into, this line came into being. I am very hazy about it.

Mr. VAUGHAN: The Canadian Government Merchant Marine was formed following the last war. There were many boats built at various points in Canada for war purposes. None of them were delivered until after the war was over. Then, the Canadian Government Merchant Marine was formed to enable Canada to expand her trade with the various other countries in the world. They were turned over to us for operation. At that time, there was plenty of cargo available. We operated ships everywhere, to South America, Egypt, India and South Africa. However, that trade gradually disappeared and we had no more use for the boats, so they were disposed of.

Mr. JACKMAN: You operated them for the Canadian Government Merchant Marine?

Mr. HATFIELD: They were very poor boats.

Mr. VAUGHAN: They were not fast boats, but they were fair cargo boats.

Mr. JACKMAN: Then, those boats were disposed of and we got out of the shipping business?

Mr. VAUGHAN: Except that we began the West Indies business.

Mr. JACKMAN: Agreements were entered into at that time with the West Indies government?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And that is where we are to-day?

Mr. VAUGHAN: That is where we are to-day.

Mr. JACKMAN: May I ask what the scale of wages is on these boats?

Mr. VAUGHAN: I have not got it here, but I can get it for you. We pay the standard scale of wages on these ships. We have had some negotiations with our men and some adjustments were made the first of June last. Those adjustments were only recently made.

Hon. Mr. CHEVRIER: They would be on the same scale and rate as the new schedule put into effect by the Department of Transport on its boats?

Mr. VAUGHAN: That is correct. The Shipping Federation also had a hand in it.

Hon. Mr. CHEVRIER: I have not those schedules on hand, but they were tabled in the House. They are substantially higher than they were in 1946. They came into effect on the first of January, 1947, and some were retroactive to a period prior to that. I do not know just when.

Mr. VAUGHAN: There have been very substantial increases granted in the last year to every one on the ship from the master down.

Mr. JACKMAN: The reason I asked the question was, last November I had occasion to sail down to the Caribbean. While I thought the ship was of American registry, I found it was under Honduras registry. The crew were all

Hondurans either Indians or coloured. I found their wage scale was substantially lower than the American scale. I understood they were paid $80 to $125 a month with everything found. When they were in port, they were housed and boarded, so they had no expenses whatever. That rate is substantially less than the American rate and I was wondering how the Canadian rate compared with that.

Hon. Mr. CHEVRIER: Speaking from memory, I would say substantially higher than that. Our rates were devised in accordance with the prevailing rates. Our rates were divided into three parts, first, in accordance with the prevailing rates on the great lakes, and, by that, I mean the rates paid by the steamship companies on the Great Lakes. A similar rate was fixed in accordance with the rate paid by independent steamship companies on the west coast, and equally on the east coast; there is a difference between the three, depending upon whether the vessel operates on inland waters or whether it is a deep sea vessel. However, I think I am safe in saying that the rate in Canada is much higher than the rate to which you have referred, but somewhat less than that in the United States. It is higher than the rate in Great Britain.

Mr. VAUGHAN: Our rates are substantially lower than the rates paid on vessels flying the American flag.

Mr. JACKMAN: But, I suppose substantially higher than the rate paid by Great Britain or European countries.

Mr. VAUGHAN: Somewhat higher than Great Britain. There is nothing like the differential between our wages and those paid in Great Britain such as existed before the war.

Mr. JACKMAN: I suppose our traffic is all competitive. Other lines can get it, we have no monopoly.

Mr. VAUGHAN: No, we have no monopoly. We are soliciting all the business we can.

Mr. JACKMAN: In the absence of trade agreements or mail subsidies or other forms of subsidy, do you think we can hold our own in this West Indies trade?

Mr. VAUGHAN: I think we can.

Mr. JACKMAN: May I ask, on the Saguenay Line, and that is your chief competitor in Canada, I suppose it brings some bauxite?

Mr. VAUGHAN: Yes, those boats are the principal competition. They bring bauxite up the Saguenay and then come down to Montreal and load general cargo for the West Indies.

Mr. JACKMAN: They can clean out the bauxite dust and make the vessels suitable?

Mr. VAUGHAN: Yes, and they are keen competitors, but we get along very well together.

Mr. JACKMAN: Do not answer this question if you do not care to, but would that line exist were it not for the fact it was, to some extent, an integrated operation of the Aluminum Company?

Mr. VAUGHAN: I would not like to express an opinion on that, but I do not think it would ever have been in existence but for its connection with the Aluminum Company.

The CHAIRMAN: Does that answer your question, Mr. Jackman?

Mr. JACKMAN: So far as the government is concerned, it must have a policy in connection with the West Indies Steamship Company. Is it simply acting on the advice of the operators? If the company makes a profit, it is all right and if it is a loss the government stands it?

Hon. Mr. CHEVRIER: It is not acting exclusively on the advice of the operators, but it is guided to some extent by their advice. You see,

there is a question, not only of the steamship operation, but there is also a question which was brought up by Mr. Hatfield, of new trade avenues, which brings up the question of trade agreements. If trade treaties were signed with these countries they may or may not contain a clause having to do with the shipment of goods. While the war was on, there was no question of entering into negotiations with these countries. I know the Minister of Trade and Commerce is keenly interested in trade with South America. He has some strong views on that subject.

Mr. JACKMAN: I would agree with Mr. Hatfield's view that we should do everything possible to facilitate trade between ourselves and the central and South American countries.

Mr. HATFIELD: I do not think any trade agreement should tie up any steamship line. I do not think that should enter into any treaty.

Hon. Mr. CHEVRIER: I am not suggesting it should tie it up. I am suggesting that if there were a trade agreement, it might well contain a clause covering—

Mr. HATFIELD: I do not think a trade agreement should have anything to do with the steamship line.

Hon. Mr. CHEVRIER: It did in the case of the West Indies.

Mr. HATFIELD: I do not think we should compel a steamship line to run at a loss just because of any clause in a treaty. This was the case in the West Indies treaty, it forced the West Indies company to take a loss during the depression.

Mr. VAUGHAN: We have not lost any money since 1934. This line has operated at a profit since 1934.

Mr. HATFIELD: When the treaty was in effect, you had heavy losses.

Mr. VAUGHAN: There was quite a large development and organization expense in the early days.

Mr. HATFIELD: Those losses might have been cut down, had you called at certain ports on your way. I think you could help the operation of your company by having small cargo steamers down in the West Indies to take cargoes between ports. There are probably 25 or 30 ports at which you call that are not worth calling at.

Mr. VAUGHAN: We did operate boats from Kingston to such places as British Honduras. We lost a great deal of money and we abandoned the service.

Mr. HATFIELD: There are lots of points at which you call that are not worth calling at.

Mr. VAUGHAN: My experience has been that if there is cargo available on a profitable basis, usually a private company gets into the business sooner or later.

Hon. Mr. CHEVRIER: Is not that the basis on which the whole problem should be canvassed? I am thinking now of the Australasian service we had prior to the war. It was a complete loss in so far as the government of Canada was concerned. Efforts have been made to bring it into operation again. I have not the figures before me now, but if anyone saw them I think they would not encourage the Canadian government to go into an operation of that sort. While I am not familiar with the situation to which Mr. Hatfield refers, I think before I would make any recommendation, I would want to know whether the trade route would be a profitable one or not.

Mr. HATFIELD: I do not think you could compete with the Norwegians and Danes in so far as a steamship service is concerned. Considering the wages paid by the United States and Canada, I do not think you could compete with these other countries after the war.

The CHAIRMAN: You have discussed that gentlemen, is that satisfactory?

Mr. JACKMAN: I do not think we have a very clear picture of just what the policy is with respect to the West Indies Steamship Lines as yet. As I understand it, it is going to be continued because we want to develop this trade. We had some ships as a nucleus, and we entered into this agreement with the West Indies. The company has made satisfactory progress in recent years. As Mr. Vaughan has just stated, if there is good cargo offering down there, private enterprise seems to go into the business and provide a service.

Now, we have this company which is progressing very nicely. The natural tendency on the part of the operators will be, I take it, to expand it and call upon parliament to make a capital appropriation so they can compete more and more with private enterprise. At the same time, we have to give consideration to the fact it may give employment to some of our population who prefer the sea to other occupations. I suppose that must be considered, but, at the same time, I do not think there is anything clear—

Hon. Mr. CHEVRIER: How could there be anything clear until there is something definite put before us? If there is profitable cargo from South America to here and the West Indies Steamship Company is able and willing to undertake it, I am sure the company will make representation to the government. If that does happen, we will certainly be glad to consider it. If the directors of the steamship company, after having gone into it fully, came to the conclusion that it is a profitable venture and recommended it to the government, then I think before we would turn it away, we would give it very serious consideration. I think to-day we would not turn it down.

Mr. HAZEN: The annual report of the Canadian National Railways gives a great deal more detail about the railways than does your report on steamships give about steamships. For instance, the net operating revenue of the railways on page 13 of the report, also pages 14 and 15, gives a good deal of detail. In the case of the steamships you give no details whatever. It came to my attention because I was looking to see how much you received from passenger service and how much from freight.

Mr. VAUGHAN: You will find that on page 8, Mr. Hazen.

Mr. HAZEN: Well then, I was looking also to see what amount of damages you have had to pay for loss of property and lost persons, and so on; you give that in connection with the railways in considerable detail but there is no similar statement in connection with your steamships that I can see.

Mr. VAUGHAN: No, we have not submitted any statement of that kind because it is a very insignificant amount.

Mr. HAZEN: It would be a very interesting detail to have.

Mr. VAUGHAN: It is a small company and losses of that kind would be almost insignificant.

Hon. Mr. CHEVRIER: It is a small venture compared with the Canadian National Railways.

Mr. HAZEN: Now, you sold three ships during the last year; what did you get for those ships, and who bought them?

Mr. VAUGHAN: We have the prices here and we can give it to you.

Mr. COOPER: We sold the S.S. *Cathcart* for $150,000; the S.S. *Cavelier* for $175,000; and the S.S. *Connector* for $150,000; a total of $475,000.

Mr. HAZEN: Who was the purchaser, to whom did you sell them? How did you sell them?

Mr. VAUGHAN: I do not remember offhand who the purchasers were. Tenders were called but the tenders were not satisfactory and we sold them for a great deal more than the tenders we got.

Mr. HAZEN: Were they sold in this country?

Mr. VAUGHAN: I do not think so.

Mr. HAZEN: Are they still under Canadian registry?

Mr. VAUGHAN: I do not think so. Some were sold abroad, and I think two or three were sold to Chinese interests.

Hon. Mr. CHEVRIER: They were old ships, Mr. Vaughan?

Mr. VAUGHAN: They were old ships, built during the last war.

Hon. Mr. CHEVRIER: And by that you mean the war of 1914-1918?

Mr. VAUGHAN: Yes. They became obsolete and were expensive to operate and required a lot of money to be spent on them to keep them in condition.

Mr. HAZEN: Were they all sold outside of this country?

Mr. VAUGHAN: As far as I recall they were all sold outside this country and are going to be used outside of this country. There was no market for them in Canada.

Mr. HAZEN: I would think that you would have a record of to whom they were sold.

Mr. VAUGHAN: I can very easily get that for you.

Mr. HATFIELD: There is another thing about the West Indies steamship service, Mr. Chairman; there are a great many young men in our navy who have no place to go except to foreign ships. I was wondering if you could not use more ships and in that way give employment to more of our Canadian seamen.

Mr. VAUGHAN: If we have any great indication of business available which might make it desirable for us to extend our services down to South America we will certainly give the matter consideration, but we do not want to be in the position we were following the last war when there was a great deal of criticism because the boats were operated at a loss. We try to operate these boats on a business basis and make them pay.

Hon. Mr. CHEVRIER: I might point out, gentlemen, that our merchant marine is in far better shape to-day than it was. Before the war we had 39 ships operating where we now have some 250 or 300.

Mr. HATFIELD: You should make plans to extend your trade and thereby give more employment to the men of our merchant navy.

Mr. HAZEN: Is there not a comparatively small number of men employed on these ships?

Mr. VAUGHAN: We made a full report last year in regard to the operation of Canadian National Steamships to this committee, in which we outlined the operation of our vessels from the beginning up to that time. That is in the Minutes of Proceedings of this committee. We can file additional copies of that report if members of the committee so desire. Our position in connection with the operation of steamships is that we do not feel that we are justified in going into services which we cannot make pay. We do not get any credit for operating vessels at a loss.

Some Hon. MEMBERS: Hear, hear.

Mr. JACKMAN: I notice that the present budget calls for three diesel-powered vessels being acquired. Could you tell us something about that.

Mr. VAUGHAN: One was acquired I think last year and there are two more now in service. We will have five "Park" boats which we bought at current market price that is the price other steamship companies paid for them. Those three diesel boats were built as a war measure. We still have two of the "Lady" boats, and we have one of the older boats, the *Chomedy,* still in operation which we expect will be sold this year.

The CHAIRMAN: Does that conclude the discussion on the steamships; gentlemen?

Agreed?

Then, let us take up the Canadian National Railways Security Trust.

Before we go into that, Mr. Cooper has the answers to certain questions which were asked.

Mr. COOPER: Mr. Nicholson asked a question.

> How much land did you sell in western Canada last year, by provinces, and what was the average price received for same?

The answer is:

	acres
Saskatchewan	74,387
Manitoba	10,487
Alberta	160
Total	85,034

The average price received per acre was $11.20.

Then there was another question asked:—

> How much unsold land have the Canadian National Railways at present in western Canada, by provinces:

And the answer is:

	acres
Saskatchewan	270,599
Manitoba	17,208
Alberta	4,567
Total	292,374

The CHAIRMAN: Now, Mr. Vaughan, do you want to read the report, or do you want Mr. Cooper to read it?

Mr. VAUGHAN: I think Mr. Cooper had better read it.

Mr. COOPER:

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 21st February, 1947.

The Honourable Lionel CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1946.

The book value of the capital stock of the Securities Trust has been decreased during the year by $1,307,952.35, due to capital loss on retirement of rolling stock equipment charged to proprietor's equity and in respect of which His Majesty has not made cash reimbursement to the railway.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the balance sheet of the Securities Trust at at December 31, 1946.

F. P. VARCOE,
For the Trustees.

THE CANADIAN RAILWAYS SECURITIES TRUST

Balance Sheet at 31st. December, 1946.

Assets

	Year 1946	Total to Date	
Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805.10	
Grand Trunk Railway		118,582,182.33	
Grand Trunk Pacific Railway		116,006,599.08	
Canadian National Railway Company		96,936,971.75	$ 643,860,558.26
Claims for Interest on Loans—			
Canadian Northern Railway		$309,702,897.65	
Grand Trunk Railway		103,250,802.95	
Grand Trunk Pacific Railway		107,326,622.84	
Canadian National Railway Company		54,501,313.57	574,781,637.01
Transactions subsequent to 1st. January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:			
Surplus earnings	$	$112,502,061.64	
Capital gains		19,105,651.38	
Capital *losses*	*1,307,952.35*	*21,241,546.47*	110,366,166.55
Collateral Securities—			
As per Schedule A.1			
			$1,329,008,361.82

Liabilities

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock: —Initial stated value	$270,037,437.88	
Gain from transactions subsequent to 1st. January, 1937—per contra	110,366,166.55	$380,403,604.43
Amount by which the book value of claims and interest thereon—per contra— exceeded the initial stated value		948,604,757.39
		$1,329,008,361.82

T. H. COOPER,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st. December, 1946.

There have been produced for our inspection the notes and other evidences of indebtedness, the collateral securities and the certificate of the special depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above balance sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st. December, 1946, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

20th. February, 1947.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SCHEDULE A.1

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
		6% Demand Note	5,700,000.00
6% Loan, War Measures Act, 1918	1,887,821.16	3½% and 4½% Debenture Stocks	7,139,399.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	Miscellaneous Bonds and Debentures	14,097,470.59
		Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk		4% Demand Note	15,000,000.00
	15,000,000.00	4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans		4% Debenture Stock	60,801,700.00
	....	6% 2nd Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$118,582,182.33		
GRAND TRUNK PACIFIC RAILWAY:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

SCHEDULE A. 1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr.* *1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr.* *364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
Temporary Loan 1930, repaid		166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr. 1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st. Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Mr. JACKMAN: Would you care to comment on that item in the second paragraph of this report in layman's language; you wrote off the sum of $1,307,000-odd for rolling stock equipment, cars and other rolling stock standing on your books and that was charged to "proprietor's equity"; and you say the government did not see fit to reimburse you for that amount. That does not mean very much to me in that form.

Mr. COOPER: We went over the same ground last year, if you remember, Mr. Jackman; In 1940 we changed over from "equipment retirement accounting" to "depreciation accounting".

Mr. JACKMAN: I know that.

Mr. COOPER: We did not at that time set up a reserve for past accrued depreciation. That is the depreciation existing at December 31, 1939.

Mr. JACKMAN: I can follow you that far down, but you have written this rolling stock off completely and there is a big account for that still in 1947.

Mr. COOPER: Let me explain it again. When we come now to writing off retired equipment our practice is to charge to depreciation reserve the amount of depreciation which has been accrued since January 1, 1940. We have charged that proportion of the loss to the depreciation reserve because we have established the reserve by charges to operating expenses since 1940; but with respect to the loss applicable to the period prior to 1940, having no reserve against that, we charge it off to the shareholder's equity account as I explained to you last year. That conforms to the policy which was threshed out with the trustees of the security trust, including three deputy ministers—finance, transport and justice. You asked me last year how long we would continue to make those charges against shareholders' equity account and I said we would continue to do so until our reserve had been permitted to build up to a level at which it could absorb all equipment retirement losses; and I expressed the opinion, if you remember, that it might run for ten years; that is to say if we continue our present practice we shall have at the end of nine or ten years from now a reserve for equipment depreciation which will be sufficient in my opinion to absorb all losses on the retirement of equipment. And it was my impression, Mr. Jackman, that you were in full agreement with that practice.

Mr. JACKMAN: I may have been. However, you will appreciate that the question is a little technical.

Mr. COOPER: I would like to add this, too; that we are following exactly the same policy which was followed by United States railways, when they changed over from retirement accounting to depreciation accounting. They did not set up a reserve for past depreciation; but they have since built up a reserve which to-day is quite sufficient to absorb all retirement losses. I believe that the progress we have made in building up a reserve is more favourable than theirs. Taking our own American lines, for example, we have been accruing depreciation on rolling stock equipment, since 1907, which is a period of forty years. The present reserve is equal to 38½ per cent—of the ledger value of the equipment owned by our American lines. On our Canadian lines we commenced to accrue depreciation in 1940, which is only seven years ago, and we now have a reserve equal to 17·5 per cent of the ledger value of our equipment. In other words, on our American lines their depreciation reserve has been built up on an average of less than 1 per cent per annum; that is to say the reserve itself has increased by

about one per cent per annum of the ledger value of the equipment; whereas in Canada we have reached 17·5 per cent in seven years; and I think therefor it is obvious that if we continue our present practice, which is identical with theirs, we shall reach the same result by the same methods, but in a shorter time.

Mr. JACKMAN: Thank you.

The CHAIRMAN: Are there any other questions?

Mr. HATFIELD: Are there any outstanding provincial bonds for the Canadian National Railways?

Hon. Mr. CHEVRIER: You will find that in the annual report.

Mr. COOPER: You will have to go back to the annual report for that. They are shown on page 19 of the railway report. The first four items on page 19 are perpetual bonds, and there are four items down in the bottom section of securities on that page. All in all we have eight different issues of perpetual obligations. They are not now in total any large amount. Prior to the repatriation orders of the United Kingdom government in 1941 and 1942 the amount was very substantial indeed. It has now been cut down to a small figure. There are securities of that kind held by other than United Kingdom residents against whom a vesting order issued by the British government would not have any effect. Some of these bonds are held on the continent of Europe, some in Ireland, some in the United States and some in Canada.

Mr. HATFIELD: What about the Canadian Bank of Commerce?

Mr. COOPER: I could not say.

Mr. VAUGHAN: Quite likely they have some.

Mr. HATFIELD: Are these all 6 per cent?

Mr. COOPER: If you are looking at the security trust those are only collateral securities. That does not mean very much. Those are notes and obligations which were given by the Canadian Northern, the Grand Trunk and the Grand Trunk-Pacific to the government at the time the government was making advances to those companies.

Mr. HATFIELD: You are not paying interest on them?

Mr. COOPER: No, sir.

Mr. REID: There is just one question I would like to ask; I see that in 1932 you issued some 5 per cent securities. I was wondering the reason for that, I thought money was fairly easy at that time?

Mr. VAUGHAN: I think those loans, Mr. Reid, were all issued on a competitive basis. I think tenders were called. I did not have anything to do with it at that time, but my information is that tenders were called at the time and in any event when those securities were issued the rate prevailing was much higher than it is now.

The CHAIRMAN: Is it the pleasure of the committee to adopt the security trust report?

Agreed.

Now the auditors' report? That closes the story. I do not think it will be necessary to read the whole of it. I suggest that it be taken as read because no doubt everyone has read it.

Agreed.

CANADIAN NATIONAL RAILWAY SYSTEM

15th March, 1947.

THE HONOURABLE
THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

SIR:—Acting under authority of The Canadian National-Canadian- Pacific Act, 1933 as amended 1936, and Chapter 4, 1946, "An Act respecting the appointment of Auditors for National Railways", we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1946, and we now submit, through you, our report to parliament.

Supplementing our audit certificate appended to the accounts published by the railway, we comment on the consolidated income account, consolidated balance sheet, general scope of audit, uniform accounting regulations and the Canadian National Railways Securities Trust as follows:—

CONSOLIDATED INCOME ACCOUNT

Consolidated Income Account

The deficit amounting to $8,962,000 for the year 1946 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before fixed charges and depreciation	$56,873,000
Less: fixed charges	46,685,000
Surplus before depreciation	$10,188,000
Less: depreciation of system equipment and United States lines depreciable fixed properties	19,150,000
Deficit	$ 8,962,000

Operating expenses reflect the utilization of $7,525,000 i.e. 100 per cent from the inventory reserve and $6,000,000, i.e. 34·3 per cent, from the deferred maintenance reserve for equipment or 15·4 per cent from the combined maintenance reserve.

The general expenses of operation in 1946 largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Loss of service value in replacements and retirements of depreciable fixed properties, i.e. bridges, buildings, stations, shops, etc. on the Canadian lines;

(*b*) Loss of service value in replacements and retirements of non-depreciable track structure, i.e. ties, rails, other track material and ballast on both the Canadian and United States lines;

(*c*) Pensions covering

(i) Railway's portion of payments to retired employees under all plans, and

(ii) Increase in pension contract reserve for the railway's portion of the estimated capital amount of all pension contracts in force at the year end under the 1935 plan;

(*d*) Insurance premiums limited mainly to risks carried outside of the insurance fund;

(*e*) Loss on operations of insurance fund, and

(*f*) General taxes relating principally to dominion unemployment insurance, United States federal and state taxes, municipal taxes in Canada and the United States, and taxes assessed against hotels and separately operated properties.

Fixed charges, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover interest on funded debt held by the public, interest on loans from the government, interest on unfunded debt, armortization of discount on funded debt and rent for leased roads and equipment. The ratio of fixed charges to operating revenues was 11·7 per cent. We would again call the attention of parliament to this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America.

Interest on funded debt averaged 4·24 per cent and interest on loans from the dominion government 3·05 per cent or a composite rate of 3·56 per cent at the year end.

Depreciation provision has been made for the equipment of both the Canadian and United States lines of the National System, the 3-1/3 per cent annual depreciation rate used for rail equipment of the Canadian lines being comparable with the latest available composite of the rates used by the Class I Railroads in the United States under the authority of the Interstate Commerce Commission.

In respect of depreciable fixed properties-defined in the 1943 order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—depreciation provision has been made during the year for the United States lines of the National System in accordance with the 1943 order but not for the Canadian lines which continue on the retirement basis. In pursuance of our 1944 report on this matter, we again recommend the early adoption of depreciation accounting for the depreciable major units of fixed properties on the Canadian lines at rates comparable with those used by the Class I railroads in the United States for like properties. For the convenience of parliament we quote from our 1944 report as follows:—

> In so far as the Canadian lines are concerned, it would not appear practicable to institute any similar depreciation plan (i.e., to the United States lines) until after the termination of hostilities, because of the substantial expense involved in determining unit property costs prior to 1923 and the need for all of the technical personnel of the railway in meeting the transportation requirements arising out of the present national emergency. The post-war adoption of depreciation accounting for major units of fixed properties on the Canadian lines is embodied in the recommendations made later in this report, under the caption "Uniform accounting regulations".

Loss of service value in replacements and retirements of fixed properties, as charged to operating expenses in 1946 through the appropriate primary accounts in maintenance of way and structures, are matters on which the following explanatory comments may be helpful.

(*a*) These charges are made where depreciation accounting has not been prescribed by the Interstate Commerce Commission or, if prescribed, has not been adopted by the Canadian lines.

(*b*) Loss of service value in the case of bridges, buildings, stations, shops, etc., is based on book cost whereas in the case of track structure such loss is based on current cost if the property is replaced or on book cost if retired from service, salvage being taken into account in all cases.

(*c*) The term "replacements" used herein refers to renewals of complete property units continued in service whereas the term "retirements" refers to properties withdrawn from service and not replaced.

(*d*) In addition to the charges for replacements and retirements, the maintenance of way and structures accounts include the cost of "day-to-day" or "running" repairs and partial renewals on both the

Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

(e) In the broad consideration of replacements and retirements, it should be borne in mind that the war-time reserve for deferred maintenance of fixed properties still applies partly to such replacements and retirements as were postponed because of traffic demands during the period of military exigencies.

In the matter of maintenance policy we have received certificates from the responsible officers to the effect that, subject to the unexpended balance of $33,000,000 in the deferred maintenance reserve, the fixed properties and equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year.

With respect to physical retirements of fixed properties and equipment, we have been furnished with certificates from the responsible officers to the effect that, insofar as traffic demands would permit, such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the accounting department.

The deficit of $8,962,000 compares with a surplus of $24,756,000 in 1945. This change in results reflects, in large measure, the impact of increased wage rates and material prices on decreased post-war revenues, an unfavourable factor to which the attention of parliament has been drawn in previous years. A factor comparatively favourable to the 1946 result relates to the utilization through operating expenses of the inventory reserve.

Consolidated Balance Sheet

The total amount of the investments in fixed properties and equipment as brought into the National System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian government railways was accepted by us. As against the corporate portion of such property investments, there have been applied the substantial reductions authorized by The Canadian National Railways Capital Revision Act, 1937 Since the 1st January, 1923, the additions and betterments less retirements of the National System have been shown on the general basis of cost. During the year 1946 the additions and betterments less retirements amounted to $15,002,000, the principal expenditures being for the purchase of rolling stock and the acquisition of the fixed properties of The Manitoba Railway Company.

The several special funds of the National System including capital and other reserve funds, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to $85,442,000, are composed of investments in the securities of dominion and provincial governments and the National System, together with cash and sundry current assets. The year-end market value of the securities held in these special funds in total exceeded the book figure, which for government securities was based on cost and for National System securities on par value. During the year the total of the funds was increased by the net amount of $360,000.

Investments in affiliated companies, as detailed in the relative schedule, are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special

valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1946 financial statements issued by the companies representing the larger investments indicate that:—

(a) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1946 mainly for investment in fixed properties and equipment.

(b) Profits aggregated some $1,138,000 and losses some $1,210,000 during the year 1946. Included in the latter total is the loss amounting to $991,000 of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National System, the other 50 per cent being chargeable to the Canadian Pacific Railway.

(c) No major corporate deficits exist at the 31st December, 1946. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to accrued depreciation of fixed properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

During the year investments in affiliated companies increased $2,121,000 of which $2,000,000 is represented by the purchase of additional shares of the Trans-Canada Air Lines.

Other investments are comprised partly of "unlisted" investments of a miscellaneous nature in the amount of $377,000, including those in hotel and grain elevator companies held primarily for purpose of traffic benefit, and are valued at or below cost. The balance is represented by securities of the Dominion Government and the National System the year-end market value of which in total exceeded the book figure based respectively on cost and par value.

Temporary cash investments are represented by Dominion of Canada securities, the year-end market value of which exceeded the book figure based on cost.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

The amount of the deficit for the year 1946 has been set up as a current account against the Dominion of Canada pending the appropriation of the required funds by Parliament.

No physical inventory of material and supplies on the Canadian Lines was taken by the railway during the year. In the case of the United States Lines, however, a physical inventory was taken as at the 30th September, 1946, and in connection therewith we have received certificates from the responsible officers to the effect that the quantities were determined by actual count, weight or measurement or by conservative estimate where actual count, weight or measurement was impracticable. Material and supplies of the National System at the 31st December, 1946, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Current assets show a ratio of 1·6 to 1 of current liabilities. The working capital position of the National System is regulated, broadly, by the application of the cash from depreciation and discount amortization in the reduction of capital debt and requirements for capital expenditures, any deficits being subject to replenishment by way of Parliamentary appropriation.

Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in western Canada. It may be of interest to note that the unsold land is included in miscellaneous physical property.

Discount on funded debt represents the unamortized portion of the discount incurred at the time the relative securities were sold, which will be written off against income in pro-rata annual instalments during the remaining life of each issue.

Other unadjusted debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Capital stock and long term debt do not include securities held in the treasury of the railway nor those held as collateral by The Canadian National Railways Securities Trust and the Dominion Government.

The combined capital debt, i.e., long term debt and Dominion of Canada Account, was reduced by the net amount of $15,193,000 during the year. Generally speaking, this net reduction results from utilization of the cash from the balance of the 1945 surplus and a portion of the 1946 provisions for depreciation and amortization of discount on funded debt.

The several corporate reserves for pension contracts, insurance, accrued depreciation and defence projects amortization, deferred maintenance and miscellaneous purposes aggregate $195,716,000 of which $84,787,000 is represented by special funds and other specific investments. None of these reserves are presently in the nature of reversible appropriations of surplus. Reserves, as a whole, were increased by the net amount of $9,296,000 during the year as follows:—

	Increase	Decrease
Pension contract reserve	$ 6,272,000	
Insurance reserve—including the amount set aside for unadjusted loss claims at the date of the balance sheet		$ 91,000
Accrued depreciation—covering Canadian lines equipment	14,996,000	
Accrued depreciation—covering United States lines—Road	700,000	
—Equipment	913,000	
Accrued amortization of defence projects		127,000
Deferred maintenance reserve		
—Fixed properties	(no change)	
—Equipment		6,000,000
Reserve for inventories of material and supplies		7,525,000
Miscellaneous reserves	158,000	
	$23,039,000	$13,743,000

The decreases shown in the reserves for deferred maintenance of equipment and inventories, reflecting their utilization through operating expenses, are equivalent respectively to 34·3% (or 15·4% in the combined maintenance reserve) and 100%.

Accrued depreciation—Canadian Lines—applies only to equipment and dates from the 1st January, 1940, retirement accounting continuing in effect for fixed properties. We make the following comments on this account:

(*a*) In the matter of unaccrued depreciation of Canadian lines equipment prior to 1940 we quote, for the convenience of Parliament, from our 1944 Report as follows:

"In respect of equipment, it should be pointed out that as no depreciation accruals were made prior to 1940, the present reserve would be liable to serious impairment from abnormal losses which would have to be accounted for if and when abnormal retirements were found necessary, because of exhausted service life and obsolescence, under any major post-war program for the modernization of the rolling stock of the National System similar in scope to that presently contemplated by other large railways in North America. We recommend to Parliament that the railway be furnished with whatever authority may be deemed necessary to establish a special depreciation reserve to provide, at least in part for this anticipated post-war situation. It should be made clear, however, that the creation of such a reserve would be an accounting provision only, involving in itself no cash outlay, because all expenditures as and when proposed to be made by the railway on the purchase of new equipment in the post-war period would form part of its capital budget subject to the annual approval and vote of Parliament at that time."

Supplementing the foregoing, we now recommend that Parliament authorize the railway to set up a reserve to cover all unaccrued depreciation on Canadian lines equipment prior to 1940 and thereby to place the accrued depreciation account on a basis broadly comparable in principle with the Interstate Commerce Commission regulations, which made equipment depreciation accounting mandatory from 1914 although the rates prescribed for use by the Class I railroads of the United States were not defined until 1935.

(*b*) In the event that depreciation accounting were currently adopted for depreciable major units of Canadian lines fixed properties, as previously set out herein under the caption "Consolidated Income Account", we recommend to Parliament that authority be given the railway to set up unaccrued depreciation retroactively as least to the 1st. January, 1943. If this were done, the accrued depreciation account covering major units would be placed on a basis similar in principle to the Interstate Commerce Commission regulations for Class I railroads of the United States, because such regulations leave the setting up of unaccrued depreciation of fixed properties prior to 1943 optional with the individual carriers.

(*c*) If Parliament were to give its approval to the foregoing recommendations, either in whole or in part, the resulting prior years adjustments of the accrued depreciation accounts on the Canadian lines would be made by concurrent charges to proprietor's equity account. In respect of both equipment and depreciable fixed properties, it might be well to restate the principle that the creation of the suggested reserves would be an accounting provision only, involving in itself no cash outlay, because all capital expenditures as and when proposed to be made by the railway in the future would form part of its capital budget subject, as heretofore, to the approval and vote of Parliament from year to year.

Accrued depreciation—United States lines—applies to equipment from a date prior to the 1st. January, 1923, and to fixed properties (excluding track structure) mainly from the 1st. January, 1943.

Other deferred liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the provinces of Ontario and Quebec, and the balance of the obligation to the state of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits are made up of the Canadian lines estimated proportion of prepaid revenues on freight in transit; estimated liability for injuries to persons; estimated liability for loss and damage claims, and credit items not otherwise provided for or which can not be disposed of until additional information is received.

Dominion of Canada—proprietor's equity—is set forth in the balance sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account as follows:—

2(*f*) "proprietor's equity" means

(i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and

(ii) the capital investment of His Majesty in the Government Railways.

The Dominion's equity decreased $1,308,000 during the year as a result of the retirement of equipment on the Canadian Lines. In respect of the latter item it should be pointed out that as no depreciation accruals were made prior to 1940, the loss of service value, i.e. ledger value less salvage, has been charged against the Reserve to the extent of depreciation accruals from 1940 the balance being charged against the Equity Account. The following explanatory comments may be of some value in clarifying this account;

(*a*) The proprietor's equity account, as detailed in the relative schedule, may be compared in principle with the shareholders' equity in privately-owned corporations represented by the combined book value of capital stock and surplus. It should be borne in mind, however, that the total book value shown for proprietor's equity would be subject to adjustment if, at any time in the future:—

(I) The book value of fixed properties and equipment as brought into the National System at the 1st January, 1923, were restated as to the residual balance after taking into account the applicable retirements since that date and the substantial reductions authorized by the Capital Revision Act, 1937, or

(II) Prior years unaccrued depreciation, either as a whole or in part, were set up against the book value of fixed properties and equipment, or

(III) In lieu of (I) and (II), a physical valuation were made of the fixed properties and equipment for incorporation on the books of the system, based either on depreciated cost values or depreciated replacement values as of any given year, or

(IV) The present basis of capitalizing the railway's portion of pensions were expanded to apply to those being paid under non-contractual plans or, as an extreme measure, to those accruing under all plans conditionally not only upon the factor of life expectancy but also continuity of employment.

The foregoing items (I) to (IV) relate to the qualifying factors referred to in our comments in this and former reports to parliament on investments in fixed properties and equipment, accrued depreciation and major contingent liabilities in respect of pension plans.

(*b*) The capital stock of the Canadian National Railway Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System.

(*c*) The initial stated value of the capital stock of The Canadian National Railways Securities Trust is shown as at the 1st January, 1937, and represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to share capital.

(*d*) The surplus earnings are for the years 1941 to 1945 only, as Section 12 of the Canadian National-Canadian Pacific Act stipulates that "Income deficits shall not be funded" but voted annually by Parliament. Taken as a whole, the capital gains on repatriation of securities and capital losses on major retirements of road and equipment not covered by depreciation accruals are for the ten-year period 1937 to 1946 inclusive. For purposes of accounting simplicity these surplus earnings, capital gains and capital losses of the National System have been applied in their entirety to the capital stock of the securities trust.

(*e*) The capital expenditures by Dominion of Canada on Canadian Government Railways represent the direct appropriations by Parliament prior to entrustment and are exclusive of certain capital expenditures on the Crown property financed by the Canadian National Railway Company out of funded debt issues and government loans.

Major contingent liabilities, apart from any undertakings for the purchase of additional equipment and general operating materials, are outlined in the relative schedule. In respect of pension plans referred to therein, we would point out that:—

(*a*) Under the 1935 contractual plan a reserve is set up on the books of the railway against the estimated capital value of contracts in force but not against pensions conditionally accruing. The reserve is represented by the pension contract fund established by the railway, the assets of which, amounting to $35,943,000 are in the form of Dominion of Canada securities together with cash and sundry current assets.

(*b*) The contribution under the 1935 plan by employees presently in service are invested through the separately administered pension trust fund, the accounts of which are not included with those of the railways. The assets of the separate pension trust fund amounting to $23,472,000 are in the form of Dominion of Canada and Dominion Guaranteed National System securities together with cash and sundry current assets.

(*c*) The year-end market value of the securities held in the pension contract fund and the separate pension trust fund exceeded the book figure based respectively on cost and par value.

(*d*) The total amount of the two funds in operation under the 1935 plan is $59,415,000.

(*e*) Under pre-1935 non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

In considering the foregoing outline of pension plans, it should be borne in mind that operating expenses are charged with pension costs covering

(i) Railway's portion of payments to retired employees under all plans, and

(ii) Increase in pension contract reserve for the railway's portion of the estimated capital amount of all pension contracts in force at the year end under the 1935 Plan.

Where foreign currencies are involved, the balance sheet accounts of the National System are stated in Canadian Funds converted generally at the par of exchange.

General Scope of Audit

The general scope of the test audit of the National System accounts for the year 1946 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded resolutions of the directors, which in turn are related to corporate by-laws, orders-in-council and Acts of Parliament;

(*b*) Audit tests in the offices of regions, separately operated properties and system headquarters, limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the system. In this connection we work in collaboration with the executive accounting officers at headquarters having as a common objective the securing of maximum internal protection to the system in the control of cash receipts and expenditures, securities held, material stores, accounts receivable, etc., and through the carrying of fidelity bond insurance with outside underwriters, and

(*d*) Audit and certification of the consolidated income account and consolidated balance sheet for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the system.

The test audit involving the use of some 475 audit programs covers the various balance sheet accounting units in Canada, the United States, London (England) and Paris (France) with income accounts originating in the revenue offices, regions, separately operated properties and system headquarters. These accounts apply to some 83 companies, as detailed in the relative schedule, and the Canadian Government Railways which comprise the National system as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine Limited and the Trans-Canada Air Lines, the holdings in the capital stocks of the affiliated companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the companies are not treated as units of the National system nor are their accounts audited by us. In a few instances their accounts are certified by public accountants but for the most part they are audited by joint committees composed of National system accountants and representatives of outside interests.

Uniform Accounting Regulations

In pursuance of our 1944 report on the above matter, we again recommend to Parliament the early establishment of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion. For the convenience of Parliament we quote from our 1944 Report as follows:

Having in mind the conflicting elements in the railway situation in Canada and the widespread publicity given to the matter from time to time in the decade preceding the present war, we are persuaded that the uniform presentation of the published accounts of the two major Canadian railways will be of far-reaching importance in the post-war years to the government and people of Canada as the shareholders of the National system. Accordingly, we deal briefly with the matter to which we have made reference for several years.

Viewed strictly from an operational standpoint, the published accounts of the two railways have not been subject to proper comparison because of:—

(*a*) Difference in the accounting bases as between operating, income, surplus and reserve accounts and as between the "consolidated" and "parent company" presentation, and

(*b*) Disparity in traffic density over the peace-time years, due largely to the difference in purposes of original construction and extension of a considerable portion of the two properties.

We therefore recommend to Parliament the establishment, as early as practicable in the post-war period, of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion.

The recommendation is primarily that, after providing for any special requirements inherent in the ancillary operations of Canadian railways, these regulations governing the published accounts should follow the broad bases of the Interstate Commerce Commission classification for the United States railways in respect of the accounting allocations to total operating revenues, total operating expenses (suggested to include depreciation of all equipment and the larger units only of depreciable fixed properties), net income, surplus and the general balance sheet accounts including specific provisions covering the utilization of reserves. Whilst the adoption of the broad bases of the Interstate Commerce Commission classification is recommended because of international operations, it is in regard to the voluminous details involved in some of the orders affecting the railways of the United States that we see the desirability of the proposed Canadian regulations differing in policy by simplifying the methods of accounting distribution at the source and by the avoidance of a certain amount of clerical expense.

It is further recommended that the regulations require the published income accounts to show the two principal traffic density factors of freight tonnage and passenger volume per mile of road operated.

The main advantage arising from the adoption of the proposed regulations would be the making available to the government and people of Canada, particularly during periods of public discussion, an improved yardstick with which to measure the relative operating performances (apart from fixed charges) of the two major railways, thus eliminating the misconceptions arising through the endeavour to compare published results which have not been computed on the same basis.

We wish to make clear to Parliament, as we have done on previous occasions to the Railway Committee, that the accounts of the National System are maintained with a high degree of efficiency and that our recommendation is not in any sense an attempt to question the right of the Canadian Pacific Railway to present its accounts to its stockholders in any way it may deem proper within the structure of existing railway legislation in Canada. The present objectives of our recommendation are threefold and relate only to:

(*a*) The securing to the National System and in turn the Dominion as its proprietor of the assurance, particularly during any periods of economic

stress in the Canadian transportation field and public consideration of the remedies therefor as may recur in the future, that a strictly uniform basis will be effective in the public presentation of the relative operating performances (apart from fixed charges) of the two major railway systems in Canada. It has been our publicly expressed opinion for many years that this objective could be accomplished, without prejudice to the respective interests involved, through the medium of accounting regulations prescribed by a department of the Dominion Government vested with authority and facilities for enforcement similar to those of the Interstate Commerce Commission in the United States.

(*b*) The substitution in Canada of present public reference to the classification of the Interstate Commerce Commission of the United States in respect of the accounting practices of the National System in Canada by future public reference to the Dominion Classification as the basic authority for such accounting, and

(*c*) The making available to the Dominion of standarized accounting and financial information on Canadian railways, drawn up in strict accordance with its own prescribed regulations, in any consideration it may be called upon to give from time to time in the long-term future in respect of transportation rates and related matters affecting the public interest in Canada.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937 as amended 1945, as follows:—

> There shall be a Corporation to be known as "The Canadian National Railways Securities Trust," hereinafter in this Act referred to as the "Securities Trust," consisting of five trustees who shall be the persons who, respectively, hold the offices from time to time of Deputy Minister of Finance, Deputy Minister of Transport and Deputy Minister of Justice and such two officers of the National Railways as may be named from time to time by resolution of the Board of Directors of the National Railways. The trustees shall serve without remuneration.

The primary function of the Securities Trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate indebtedness (formerly to the Dominion but now to the Trust) and relative collateral securities, for the purpose of preserving any priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public. This function of the Trust lessens in importance with the passing of time as unguaranteed securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our audit certificate appended to the accounts published by the Securities Trust, we comment on the balance sheet as follows:—

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' report and a separate balance sheet for the Trust. It is further provided that the Trustees' report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its Capital Stock originating in the accounts of the railway and, subject to the approval of the Governor in Council, any releases of indebtedness or collateral securities belonging to the Trust.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

15th March, 1947

The Honourable the Minister of Transport,
Ottawa, Ontario.

Sir,—Acting under your authority we have audited the accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st December, 1946, and we now submit, through you, our report to Parliament.

The accounts of the steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion Government.

Supplementing our audit certificate appended to the accounts published by the Steamships, we comment on the consolidated income account, consolidated profit and loss account and consolidated balance sheet as follows:—

Consolidated Income Account

The surplus amounting to $1,302,000 for the year 1946 is summarized hereunder:—

surplus after making provision for the general expenses of operation but before interest and depreciation	$2,186,000
Less: interest	596,000
Surplus before depreciation	$1,590,000
Less: depreciation	288,000
Surplus	$1,302,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Provision covering the presently estimated excess expenditure over the cost to be assumed by the Dominion Government with respect to the reconversion and overhaul of the "Lady" ships *Nelson* and *Rodney;*
(*b*) Administrative charges by Canadian National Railways;
(*c*) Pension payments to the Canadian National Railway Company as pension contract underwriter;
(*d*) Insurance premiums on risks carried both by the insurance fund and outside underwriters, and
(*e*) General taxes covering principally Dominion Unemployment Insurance and municipal taxes.

Interest on funded debt was at the rate of 5 per cent and interest on government advances for deficits 2·5 per cent or a composite rate of 4·12 per cent at the year end.

Depreciation covers all vessels at the uniform rate of 5 per cent for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of capital assets.

The Surplus for the year shows an increase of $186,000 in comparison with 1945. An important factor in the relatively low net return from the increased operating revenue was the provision made in 1946 for the reconversion and overheaul of the two "Lady" ships.

Consolidated Profit and Loss Account

The deficit decreased $1,302,000 as a result of the surplus in 1946.

Consolidated Balance Sheet

Investment in vessels is carried on the general basis of cost. During the year the additions and betterments less sales amounted to $1,129,000, the major expenditures being for the purchase of one diesel and two "Park" vessels.

Accrued depreciation covers the period from the inception of operations in 1929 to 1946. The reserve decreased $253,000 during the year after absorbing the charges arising from the sale of three old type vessels.

Replacement and insurance funds aggregating $6,774,000 are composed of investments in the securities of the Dominion Government together with cash and sundry current assets. The year-end market value of the securities held in these funds in total exceed the book figure based on cost.

The replacement fund decreased $1,304,000 during the year. An important factor in this decrease was the utilization of fund assets for the acquisition of three vessels in 1946 and the 10 per cent deposits on three additional vessels for delivery in 1947.

In connection with the insurance fund we would point out that the "Lady" ships now undergoing reconversion and overhaul and the recently acquired diesels are presently insured with outside underwriters. In the event that 100% of the risk on any of these ships were transferred to the fund in the near future its adequacy on the present basis would be open to question. The fund increased $77,000 during the year.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

The amount shown as due from vessel replacement fund represents payments made out of current cash in 1946 in connection with the purchase of vessels subject to replenishment by the fund in 1947.

Current assets show a ratio of 2 to 1 of current liabilities. In this connection it should be mentioned that a cash payment of $1,105,000 was made to the Dominion Government in reduction of advances in the early part of 1947. The working capital position of the Steamships is regulated, broadly, by the depositing of the cash from depreciation and fund earnings in the vessel replacement fund and by the application, in due course, of the cash from residual surpluses in reduction of Dominion Government advances, any requirements for capital expenditures being currently financed through the replacement fund.

Discount on capital stock represents an intangible book value set up at the time of incorporation to offset the par value of the shares issued without cash or equivalent consideration.

Capital stock, funded debt and Dominion of Canada advances were unchanged during the year. At the year end, the Dominion of Canada account represents only advances for deficits, all advances on capital account having been previously repaid to the government.

Unadjusted credits are comprised largely of uncompleted voyage suspense items.

The insurance reserve, which includes the amount set aside for unadjusted loss claims at the date of the balance sheet, increased $77,000 during the year.

Profit and loss covers the period from the inception of operations in 1929 to 1946. In considering the deficit we would again point out to Parliament that interest on advances for deficits has been charged for the entire period.

Apart from any undertakings for the purchase of additional vessels and general operating materials, the major contingent liabilities of the steamships relate to pension plans. With reference to pension plans we would point out that

a funded reserve is provided through the C. N. R. as pension contract underwriter against the estimated capital value of contracts in force under the 1935 plan but not against pensions conditionally accruing. In this connection it should be borne in mind that operating expenses of the Steamships are charged with pension payments to the C. N. R. pension contract fund. The contributions by the Steamships employees presently in service are invested through the separately administered pension trust fund under the C. N. R. 1935 plan.

Where foreign currencies are involved, the balance sheet accounts of the Steamships are stated in Canadian funds converted mainly at the par of exchange.

The test audit of the Steamships for the year 1946 was similar in scope to that of the National System previously outlined in this report.

Now, gentlemen, Mr. Matthews is here. Are there any questions you wish to ask him about the auditors' report on the Canadian National Railways System?

Hon. Mr. CHEVRIER: Perhaps I might ask one question to start. Have you made any changes in your recommendations to those that were in last year's report?

Mr. O. A. MATTHEWS (Geo. A. Touche & Co., Auditors): There are no new principles.

Mr. JACKMAN: Perhaps I might ask Mr. Vaughan what his opinion is in regard to proceeding with the adoption of uniform I.C.C. accounting, perhaps by Board of Transport Commissioners' order.

Mr. VAUGHAN: We think that would be a very difficult thing to accomplish because there is no power that can force the Canadian Pacific Railway into uniform accounting, especially on their United States lines.

Mr. JACKMAN: The I.C.C. compels them to have uniform accounting over there, does it not?

Mr. VAUGHAN: Yes, but it does not follow that the same instructions would be issued over here.

Mr. JACKMAN: Has our Board of Transport Commissioners not the power to not only authorize but insist upon the form in which accounts are kept?

Hon. Mr. CHEVRIER: I do not think they have. The authority which the Board of Transport Commissioners get is from the Railway Act. I do not think the Railway Act authorizes it to impose uniform accounting practices. Mr. Matthews would probably know more about that technical point than I do.

Mr. MATTHEWS: I think there would be further legislative steps necessary if such a recommendation were adopted.

Mr. HAZEN: Would that be legislation to compel the C.P.R. to adopt another system, or how could we get it?

Mr. MATTHEWS: It would resolve itself into a question of the government, through a department similar to that of the Interstate Commerce Commission in the United States, adopting accounting rules and regulations that would be mandatory, yes. While we have recognized ever since 1934, when this matter was first brought to the consideration of parliament, that it is one on which there is a wide difference of opinion, nevertheless throughout the years we have seen nothing to alter our opinion. In view of the fact that the basis of our appointment is that we are to call matters of this character to the attention of parliament we feel that looking back over the 30's, remembering the public discussion that took place in this country, and recognizing that to-day with the level of wage rates and material prices in the country, and the natural effect of that upon the required revenue of railroads generally, the proprietor for whom we work would be in a position better to deal with contentious matters that

may arise in the future if they, like the Interstate Commerce Commission in the United States, could start with information that they themselves had set out.

We have said in this report, as we have said before, that the accounts of the national system are maintained with a high degree of efficiency. The Canadian Pacific Railway accounts are drawn according to their own standards. They have every right to do what they do, but we are only dealing with what we believe to be the necessity eventually of this country having, in regard to its transportation, a basis of information that will be standard, and that will be according to the rules and regulations that the government itself prescribes, the same as the government does for the railroads of the United States.

Mr. Hazen: Do the Canadian National Railways follow the system that is laid down by the Interstate Commerce Commission?

Mr. Matthews: Yes, very largely they do, but there are exceptions that cannot be avoided under present circumstances. Take, for instance, the question of depreciation on fixed properties. Of course, that is prescribed for the United States lines. That is one of the exceptions. We also have dealt with that matter as far back as 1934. While we recognize there are differences of opinion again on this matter nevertheless we draw the situation to your attention again. Our view generally is that the Canadian National Railway inherently has certain handicaps that it inherited. In view of the fact that when periods of depression come and the Dominion of Canada have a big stake in this enterprise we have always felt that anything that places the national system in any disadvantage with any other railway was something that was our job to call to your attention. Whether or not anyone agrees with it, of course, is not within our power to control.

Mr. Lockhart: I might ask if the uniform system in the United States is adhered to strictly?

Mr. Matthews: Yes.

Mr. Lockhart: Very strictly adhered to?

Mr. Matthews: Yes.

Mr. Lockhart: I have one other question that occurs to me. It is as to any loss in operations of the insurance fund. Probably that amount is set forth somewhere?

Mr. Matthews: It is not large. It is just $40,000. It is the difference between the premiums collected and risk losses in the insurance fund.

Mr. Lockhart: It only runs to about $40,000?

Mr. Matthews: That is all it runs to.

Hon. Mr. Chevrier: With reference to uniform accounting methods perhaps I should have added to what I said a moment ago that in 1936 the then Minister of Railways and Canals invited both railways to set up a committee to consider uniform regulations for accounting. A representative committee did meet but could come to no agreement on it, and because of the war nothing further was done.

Mr. Lockhart: Perhaps it could be taken up again.

Hon. Mr. Chevrier: The matter rests there now.

Mr. Jackman: I wonder if I might ask Mr. Vaughan this question. It strikes me that some years ago, when we were comparing the results of the C.N.R. system with the C.P.R., that you rather favoured the adoption of a uniform system of accounting, if not the I.C.C. system an amendment thereof suitable to Canada. Is my memory correct, and are you still of the same opinion?

Mr. Vaughan: There was some discussion on the matter. I think it is a matter on which Mr. Cooper can give you more light than I can.

Mr. Cooper: Our difficulty is due to the fact first that we are an international railway. We are operating railroads in the United States as well as in Canada. Seventeen per cent of our revenue is earned on our United States lines. We operate the Grand Trunk Western Railway, Central Vermont Railway, the Duluth, Winnipeg and Pacific Railway, the line to Portland, the International Bridge Company, St. Clair Tunnel Company, the Canadian Northern Lines through the state of Minnesota, the United States and Canada railway, which runs down to Massena, the Champlain and St. Lawrence Railway which runs to Rouses Point, the Vermont and Province Line which runs to Alburg Junction. With respect to all these operations we are compelled to adhere to the Interstate Commerce Commission regulations, and we do not wish to be in the position of having to maintain two sets of accounts if they differ from one another.

Our difficulty, of course, would increase according to the degree of difference between the two systems of accounting. It would not be merely an accounting difficulty. Some of our sections cross the international boundary line. Our section men, our B and B men and our train crews would be involved. If when they are in Canada they have to keep their reports according to one classification of accounting, and when they cross the line they have to make reports for the identical kind of work on a different basis, you can see a great deal of difficulty would be involved in computing the expense.

In any event we are presenting our accounts as a consolidated system. If we kept accounts in Canada on a different basis from those of the United States we would, for the purpose of the annual report, and for the purpose of managerial reports, control reports, at headquarters, have to restate one set of accounts to bring them to some common comparable basis.

There are other railways in Canada. United States railways operate here, the Northern Pacific, the Great Northern, the Wabash, the New York Central, the Michigan Central, the Central Vermont, the Pere Marquette, and so on. They are required, of course, over there to keep their accounts according to the Interstate Commerce Commission classification. They would run up against the same kind of difficulties.

There are certain fundamental differences between Canadian National and Canadian Pacific accounts. I should like to make clear that in anything I say I am not saying that we are right and they are wrong, or even suggesting that one is right and the other is wrong. Our system accounts are prepared on the basis that all companies comprising the Canadian National system are consolidated as if a legal merger had taken place, and we present our accounts to you as those of one corporation. Although there are some eighty or ninety corporations in the system we give you our accounts on a consolidated basis as if they were a single corporation. We wash out all inter-company transactions.

The Canadian Pacific is not on that basis. I am not suggesting we are better than they are because the two bases are very commonly used. Theirs is what I would describe as a parent company controlling a number of subsidiary companies. For example, we treat the Grand Trunk Western, which is one of our United States subsidiaries, as if it were a part of our system. We bring its revenues and expenses into our accounts exactly as we treat the Canadian operations. The Canadian Pacific bring their Soo line operations in on a dividend basis, and they are quite right if that is their policy. I am sure there is no law, and you would never write a law, that would compel the Canadian Pacific Railway to publish a report from their directors to the shareholders in any particular form. It is an internal matter between the directors and the shareholders.

For instance, we treat our telegraph department as a department of the railway. We bring in our telegraph revenues and expenses in the same way we bring in express, freight, passenger, and everything else. They do not. Canadian Pacific Telegraphs is a separate company, and they bring it in as "other income". Who shall say they are not correct?

Mr. JACKMAN: Are they bound in their presentation of their accounts by the ordinary clauses in the Companies Act whereby you have to state whether it is a consolidated return or what you have drawn down from your subsidiaries?

Mr. COOPER: I would think so, but they are not compelled to make a consolidated report. In the United States, where the railways are very much more regulated than they are in Canada, there is no requirement with respect to the form in which directors shall make reports to shareholders except that they shall be a true reflection of the accounts. When you think of the Canadian Pacific's operations, its steamships, its land operations, and so on, you will see that there are some fundamental differences between these two large transportation systems. They are not identical. I do not think you can ever get to the point where they can make identical reports. I quite agree that from time to time, when an investigation is under way for one purpose or another, the two accounts have to be brought down to some common basis, but that is a matter for a special presentation at the time for the purpose. As Mr. Matthews kindly said we are maintaining our accounts strictly in accordance with the Interstate Commerce Commission's regulations except with respect to this matter of depreciation on fixed property. We desire to continue on that basis.

The minister has referred to the committee which the Rt. Hon. C. D. Howe created in 1936. If I may I should like to read the answer which the minister made to a question in the House. Mr. Donnelly asked the question

> Is there any hope of having the Canadian Pacific Railway and the Canadian National Railways adopt the same system of accounting so that we may be able to compare the statements of the two roads?

The answer of the minister was:—

> A committee was formed, I believe in 1937, to bring that about. The committee worked for two years and at the end of that period submitted a report which was unsatisfactory to both railways. The Canadian National felt that, having worked towards the objective of adopting Interstate Commerce Commission accounting, they did not wish to take a retrograde step. The Canadian Pacific was not prepared to come all the way towards Interstate Commerce Commission accounting practice. The result was a disagreement to the extent that the department dropped the project. It is quite a considerable matter suddenly to change the accounting practices of a railway, and I hardly think that any progress can be expected at present.

Speaking for the Canadian National I hope nothing will be done which would prevent us continuing to keep our accounts in accordance with the Interstate Commerce Commission classifications.

Mr. JACKMAN: Mr. Chairman, it is very interesting to hear Mr. Cooper's view on behalf of the railway. I do not see that his view differs from the suggestion that it might be well for parliament to exercise its authority and compel other railways operating in Canada to adopt I.C.C. regulations, because you said in ending your statement you hoped nothing would be done to change your present procedure under which you follow I.C.C. regulations to a very large extent. Is that not what you said?

Mr. COOPER: I do not think that is entirely what is recommended or suggested by the government auditors. I rather think they are suggesting that we should establish a different—it may be similar but in some respects I think

it would be different—classification, a distinctively Canadian classification. As I said, to the extent that it differs from the Interstate Commerce Commission classification it will do nothing other than create difficulty and expense for the Canadian National Railways.

Mr. JACKMAN: Then perhaps I should ask Mr. Matthews this question. Your suggestion is not on all fours with the I.C.C. regulations in regard to accounting in the United States?

Mr. MATTHEWS: Yes, the only suggestion that we have made that would differ from the I.C.C. is that the Canadian classification should not extend itself into such detail regarding the depreciation of fixed property accounting etc. In the Canadian classification for those ancillary operations which are peculiar to Canadian operations so far as the broad basis of accounting is concerned, our suggestion has always been that it be based upon I.C.C. The only difference is not to involve it in too great an amount of accounting detail. The principle, as far as we see it, would change the accounting of the Canadian National railways not at all except in the matter of fixed property accounting.

Mr. JACKMAN: Mr. Cooper, I gather it does not follow your recommendation to carry it out is quite as simply as we might think. In other words there is a difference of opinion in the carrying out of the principle, is that fair Mr. Cooper?

Mr. COOPER: If Mr. Matthews is recommending adoption by the Canadian National railways of the Interstate Commerce Commission classification I am all for it.

Mr. JACKMAN: He says he is.

Mr. COOPER: Of course we are not following their method of depreciation accounting which I have referred to and I am always ready to defend our practice.

Mr. JACKMAN: With regard to depreciation.

Mr. COOPER: The depreciation of fixed properties.

Mr. REID: I have a few questions I would like to ask. I, more than anyone else, realize my own limitations in studying these reports. The question I would like to ask concerns page 4, item (*b*). It states,

> Profits aggregated some $1,138,000 and losses some $1,210,000 during the year 1946. Included in the latter total is the loss amounting to $991,000 of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National system, the other 50 per cent being chargeable to the Canadian Pacific railway.

My question is now, and the one following has the same object in view, where in your annual balance sheet, the annual report, is that asset.

Mr. MATTHEWS: Under investment of affiliated companies.

Mr. REID: It is marked down.

Mr. MATTHEWS: Yes, it is on page 20 of the annual report. The Northern Alberta railways shows a capital stock of $312,500,000 and bonds $15,765,000. The Canadian Pacific holds the same investment in the same road and when the accounts of the Northern Alberta railway are taken off each year, the loss is determined and 50 per cent is debited each way. That is under an agreement between the Canadian National and the Canadian Pacific railways. As far as the Caandian National railway was concerned their half was taken in the accounts in 1946.

Mr. REID: Another question. That $377,000 in the second part, is that taken into account?

Mr. MATTHEWS: Yes, that is other investments, and those are on the balance sheet. As a matter of fact the report follows the balance sheet at that point. At page 10, under other investments, it shows system securities at par $80,000 and other assets at cost $916,000. It is the makeup of that account.

Mr. REID: My other question is at page 6 of your report. You there make recommendation to the committee or to parliament with regard to accrued depreciation. If you go down to the third paragraph where it states.

> Supplementing the foregoing, we now recommend that parliament authorize the railway to set up a reserve to cover all unaccrued depreciation on Canadian lines equipment prior to 1940 and thereby to place the accrued depreciation account on a basis broadly comparable in principle with the Interstate Commerce Commission regulations.

My question is, in doing that, if that were put into effect would, it mean more money would have to be appropriated by parliament. That it would have to be taken from the Canadian National system. Am I correct?

Mr. MATTHEWS: No, Mr. Reid, as pointed out in (*c*), there is no cash involved in this. There is a charge this year to proprietor's equity of some $1,300,000. There is no cash involved there as far as appropriation by parliament is concerned. It would merely be establishing the depreciation reserve position of the C.N.R. on a basis as if they had been accruing depreciation throughout the years. There is no cash involved but moneys, if and when required, would be voted by parliament as it is at present. However it would require some parliamentary approval to make such a charge on proprietory equity.

Mr. JACKMAN: How large amount would that be in millions?

Mr. MATTHEWS: I could not say.

Mr. VAUGHAN: That is what Mr. Cooper was referring to in his opening remarks.

Mr. JACKMAN: Would that be suitable to the operating officials?

Mr. VAUGHAN: We have, on different occasions, tried to have the government take up that amount or one similar, in proprietor's equity account. After considerable discussion we arrived at the decision the amount should be taken up each year rather than in one sum.

Mr. JACKMAN: In ten years the problem would disappear, likely.

Mr. VAUGHAN: Perhaps.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: I mean to say, this is very difficult for a layman to express an opinion on and it does seem from a lay point of view that if the railways in Canada were operating or keeping their accounts in the same form we would be able to compare, on a surer foundation, one railway with another and I do not thoroughly understand Mr. Cooper's suggestion. If the change were made he might have to almost keep three sets of accounts in connection with border properties.

Mr. VAUGHAN: I do not think he quite meant that. He meant, as so many of our railways at the present time are covered by the I.C.C. accounting that it would cause confusion if there were any different system of accounting incorporated in Canada. Mr. Matthews has said he is in favour of I.C.C. accounting. Mr. Cooper has said he would be in favour of I.C.C. accounting with the one exception.

Mr. MATTHEWS: As a matter of fact we have already said the Canadian National, apart from the depreciation of fixed properties are mainly on the I.C.C. basis now, and our recommendation suggests the adoption of I.C.C. in these Canadian classifications with the one exception that under I.C.C. rules there are

instances where the amount of detail required is very expensive and in our opinion adds very little. As far as the principle of comparability is concerned we have talked Interstate Commerce Commission since 1934. Let me make this point clear. With the adoption of our recommendation the only change in the C.N.R. accounts of any importance would be the adoption of depreciation accounting on fixed property. Generally speaking the Interstate Commerce Commission classification is now in use by the Canadian National, and, to the extent that it is, we certainly would not make any recommendation or any change with respect to it. The matter is much broader than appears on the surface. I suppose we might as well be frank about it. In recent years the Canadian Pacific have built up some tremendous reserves for depreciation and our feeling, in so far as the Canadian National is concerned, and, recognizing that the most potent factor in accounts is reserves, and that the Canadian National railway is an instrument of operation of the dominion, it is the only major railway on the continent that has not got depreciation accounting on fixed properties. We feel from the point of view of the National system being owned by the dominion that it would be in the interests of the dominion that this property be on the basis where they would have the use of reserves the same as any other railroad. To talk about uniform accounting on the surface is meaningless and when reserves are created in the proportion that they have been created in recent years, the utilization of those reserves is most important.

Mr. Reid: Suppose right there you were to take a reserve and set it aside. To do that last year you would not have shown a $16,000,000 surplus. It would have meant you would have taken the money from the whole system and put it into a reserve similar to the C.P.R.

Mr. Matthews: No, Mr. Reid, the thing we had in mind is, where you have regulatory accounting, the creation of reserves and the utilization thereof would be subject to one main authority.

Mr. Reid: You just told us the C.P.R. had a big reserve and that was a potent factor in any company.

Mr. Matthews: I did.

Mr. Reid: If you were to do that in the C.N.R. you would not have a surplus because you would be putting up that reserve.

Mr. Matthews: No, Mr. Reid, what would happen would be, for our recommendation is, if we were to adopt depreciation accounting on fixed property the same as it is on equipment, and then bring past accrued depreciation up to date and start over again, it would involve no vote by parliament. It, thereafter, places the accounts on a comparable basis with other railroads that have reserves. If you have no reserves these retirements either have to be charged to operating expenses or to your profit and loss. I realize it is a very technical matter.

Mr. Reid: Let me ask this question, I am speaking about page 10 of the report to try and get a clearer picture or to compare more readily the two systems. If the accounting system was similar in both it would be possible for this committee and the public to get a comparable picture as to the actual performance of the Canadian National with the Canadian Pacific.

Hon. Mr. Chevrier: I suppose, if we called witnesses from the C.P.R. we would get their angle.

Mr. Reid: The auditor must have something in mind when he made the recommendation.

Mr. Mutch: If the public could understand it more clearly then perhaps we could.

Mr. Reid: I suppose Mr. Mutch can speak for himself and I have told you I am not a financial expert either but I would just like to get the picture clear in the light of what you recommend on page 10.

Mr. Matthews: Mr. Reid, the accounts would be presented in precisely the same form and with the same type of reserve to utilize. If one company has large reserves and another has not the effect on the operating expenses over all the years is quite considerable.

Mr. Reid: You are advocating, with this idea, giving us an improved yard-stick with which to measure the relative operating performance apart from fixed charges.

Mr. Matthews: That is right.

Mr. Reid: Of the two major railways. That is to eliminate any misconception of the results if they were compared on the same basis.

Mr. Matthews: That is correct.

Mr. Jackman: Is there any other firm or business that uses retirement depreciation.

Mr. Matthews: You mean commercially.

Mr. Jackman: Yes.

Mr. Matthews: Well of course speaking of commercial corporations, depreciation accounting has existed as a practice for a long time. Throughout the years our position on depreciation on the railways has been one of going along slowly. We started in 1934. We started then when the order of No. 15,100 was made effective by the I.C.C. It was postponed from one year to another and finally adopted in 1935. But you will find we have gone progressively along endeavouring at all times to not go ahead of the best practices that had been arrived at in the United States because certainly the Interstate Commerce Commission has spent a lot of money. The American roads have spent a lot of money in studying this question and it has been a matter of progressively following the steps that have been taken by these roads and it is all right to say the Canadian National are not going to be governed by what other railroads do. In the long run, however, you more or less find yourself in the position where you must in due course of time. However, we are not here to do any more than to present our opinion in the matter, and not with the idea of trying to force it.

Mr. Reid: May I ask this question. At the top of page 11.

Mr. Vaughan: I think it would be helpful to hear Mr. Cooper express an opinion on that.

The Chairman: Mr. Cooper would you like to say something before Mr. Reid asks his question?

Mr. Cooper: This has particular reference to depreciation on fixed properties?

Mr. Vaughan: Yes.

Mr. Cooper: This is also a matter which has been before this committee on many occasions. In our 1942 report there was a full statement with respect to our policy and we said "It is considered desirable that the depreciation accounting policy of the railway shall be indicated so that the record may be clear as to the basis on which the accounts herein presented have been stated". The statement goes on to explain that United States carriers were changing from retirement accounting to depreciation accounting but that we did not intend to make a change at that time on our lines in Canada and some of the reasons behind our policy are these. The railways in the United States adopted depreciation accounting for fixed property on January 1, 1943.

That is only four years ago. Previous to that year they had continuously opposed depreciation accounting on fixed properties. They changed over in 1943, in my opinion because of the tax situation. They were confronted in that year with very sharply increased income taxes and excess profit taxes. That, in by opinion, was the reason for the change. It was not a logical change, it was a change based on expediency and having regard to their tax position. The Canadian National Railway has no tax problem in Canada and therefore the reasons which led the United States railways to make the change do not apply to the Canadian National Railway. As a prerequisite to the adoption of depreciation accounting by the American railways an inventory of their properties had to be made. This federal valuation of the railroads cost the Interstate Commerce Commission $50,657,000 to the end of June, 1937, and it cost the class 1 railroads $153,284,000. This was an average of about $830 per mile of road. We have 24,000 miles of road. There is no similar valuation of the Canadian National available. We have neither the technical personnel available for the work nor the inclination to spend the amount which would be necessary.

When you think of a railway, you think first of the rails, ties, ballast and all the other items which, collectively, are referred to as the track structure. On would suppose, as all the elements in track structure are subject to depreciation, that under a plan of depreciation accounting the track structure would be included. That is not so.

Mr. JACKMAN: Under the I.C.C.?

Mr. COOPER: The United States railways are not required to take account of depreciation in track structure, due to the practical difficulties involved. Nevertheless, the admission seems to me to contradict the theory that retirement accounting is inadequate and that there must be depreciation accounting, if the accounting is to be set up on a sound basis.

Mr. JACKMAN: What would you say to this point, if you have a railway which is going to run at all, it must keep its track in adequate shape, otherwise it would have an accident the next week. It has to be maintained at about 100 per cent efficiency.

Mr. COOPER: I think we have to do that with all our property. Perhaps I may continue and then we can argue it out afterwards.

Mr. JACKMAN: Yes.

Mr. COOPER: I think any accounting system should be patterned on the physical characteristics and nature of the operations of the business itself as well as its corporate and financial relationships. For myself I believe, in view of the size of our property, its physical components, the varying dates of their installation and their differing service lives, that we are able, by a continual process of repair, renewal and replacement, to maintain the property in good operating condition by charges to operating expenses reflected in the accounts of the year.

We have no outside shareholders. The question of dividends is not involved. The method of financing the railway does not hinge on its balance sheet position. It would be a matter for the government to say whether, in addition to our other requirements, they would be willing to advance an amount by which a theoretical depreciation charge might exceed the actual expenditures made for maintenance.

I would like to add this, because there is a seeming inconsistency in our refusal to adopt depreciation on fixed property when, in 1940, depreciation accounting for rolling stock was adopted. My explanation for that is, that as compared with fixed property which, as a whole, can be adequately maintained by renewal or replacements of its component units, rolling stock has a definite life cycle. It becomes obsolete and cannot be restored to a serviceable condition. It must, inevitably, be retired from the service.

I said that before 1943 U.S. carriers had consistently opposed the adoption of depreciation accounting for fixed property and the following quotation, which I have taken from a report on the federal valuation of railroads, is stated to be typical of the railway position. It is for this reason I am quoting it.

> The carriers protest against the principles, methods and rules employed in the determination of cost of reproduction less depreciation and against the results of their application. They maintain that the amounts ascertained and deducted as depreciation are but speculative estimates of future operating costs and are not depreciation. They further maintain that the service life of their properties is continuous and indefinite and that there is never at any time any known or ascertainable part of this service life which has expired. In other words, they contend that depreciation does not exist in well-maintained railroad properties.

Now, the position of the United States railways, as I was saying, up to 1943 was that. They changed for their own particular reasons.

Mr. JACKMAN: What is the date of that report?

Mr. COOPER: This report is dated 1939, and it was made by an engineer who was a past president of the American Railway Engineering Association.

Mr. JACKMAN: The authority of the booklet is from what, the association?

(Mr. Cooper passes booklet across to Mr. Jackman.)

Mr. COOPER: This is more or less a personal document written by a man who is recognized as an authority. I was not quoting him, I was only quoting from his booklet where he undertook to give a statement of the typical attitude of the United States railroads toward depreciation of fixed railroad property.

I feel in the case of the Canadian National Railways that it is possible for us to maintain our property, that is our fixed property, year by year by charges to operating expense. I think we do so; and I see no purpose in setting up in addition what is more or less a theoretical charge for depreciation. I do not deny that in many businesses depreciation is a necessary accounting provision. I think in the case of an industrial concern or even in the case of a new railway; I think it would be foolish to deny the principles of depreciation accounting but where you have a railroad such as this is, owned by the state, constructed over a period of 100 years, 24,000 miles of track with all its component parts, then it is possible for us to maintain that property from year to year by charges to operating expense and keep our accounts as far as possible on a cash basis rather than according to figures which the accounting people might compute. I think that we are on a sound basis.

Mr. JACKMAN: I see the gentleman who wrote this booklet is Edwin F. Wendt, a consulting engineer, of Pittsburgh, Pennsylvania, and the past president of the American Railway Engineers' Association; that is an association of railway engineers?

Mr. COOPER: The American Railway Engineering Association is a department of the Association of American Railroads. We are members of that association.

Mr. JACKMAN: And it is not an article expressing the engineers' point of view?

Mr. COOPER: No, sir. Again I am pointing out that it is not an expression of his views, but an extract from the report of the United States Bureau of Valuation and is taken to be a summing up or typical example of the arguments used by the American railroads on the application of depreciation accounting.

The CHAIRMAN: Gentlemen, you have heard the auditor; what is your view, can we adopt the auditors' report, outside of the Trans-Canada Air Lines section?

Mr. REID: I had one question I wanted to ask, if you don't mind, Mr. Chairman.

The CHAIRMAN: Yes, Mr. Reid, I am sorry I had forgotten that.

Mr. REID: With reference to page 11 of your report, Mr. Matthews; first of all I take it that the word "dominion" means the dominion government; "the making available to the dominion of standardized accounting—"; I take it that you mean the dominion government acting on behalf of the Canadian people, acting as proprietor of the Canadian National Railways system.

Mr. MATTHEWS: The dominion government acting in its capacity as the regulatory or legislative body of the country, the same as the Interstate Commerce Commission has powers so to do in the United States.

Mr. REID: What I had in mind was, you say, "in any consideration it may be called upon to give from time to time in the long-term future in respect of transportation rates and related matters affecting the public interest in Canada." I do not think the dominion government would undertake to set rates.

Mr. MATTHEWS: Mr. Reid, what we mean is this; that the dominion government looking ahead has a problem of transportation on its hands, as it had in the past. There is a higher level of wage and material costs, and it is more than likely that in this country we will see a period of difficult times for transportation interests. Naturally, that resolves itself into some form of added revenue. The source to which the railways of this country have to appeal is the dominion government, to some department of the dominion government.

Mr. REID: That is true, yet not true.

Mr. MATTHEWS: But it is there, under the authority of the dominion. Now, if in the future in the United States, for instance, there is a question of freight rates, there the Interstate Commerce Commission start with a set of accounts the construction of which they have previously designed; so that from the point of view of the dominion itself there does in our opinion seem to be some justification, in addition to what we have said in previous years, for having available a uniform type of accounting and information in regard to the railroads of Canada.

Mr. REID: Would it be fair to infer from this statement that it would be much easier and more simple for you to change and recommend transportation rates, let us say on the C.P.R., on account of their accounting system, than it would be under the present system of accounting on the Canadian National? I think that is really what your statement means.

Mr. MATTHEWS: We are not thinking of anything at present, particularly, Mr. Reid; but that is true, yes; that if the government in future in dealing with the transportation problems had before them a basis of information that was uniform and which was according to its own direction, and if it were giving, as the Interstate Commerce Commission have to do, any consideration to any problem having to do with its railroads they have a head start and are in a position to give the matter consideration at an advanced point which would be impossible if a great amount of time had to be spent in finding out what is in the accounts and what these things mean and what they really do produce.

I would like to make just this closing statement. As far as we are concerned we have suggested the Interstate Commerce Commission classification under government authority; and in these figures that Mr. Cooper gives as to the moneys spent in the United States by the Interstate Commerce Commission and the United States railroads, I have said before that our recommendation is only for the major fixed properties. We are thinking in terms of hotels, and large

bridges and large terminals and stations, where the retirement of any one unit in any one year or two would be a serious distortion of the operating results of that year; and we certainly in no sense are making any recommendation that relates itself to any kind of an undertaking such as the Interstate Commerce Commission and the United States railroads undertook in the years gone by. You can see, gentlemen, that Mr. Cooper and ourselves do not see very closely on this matter. However, that is all in a very cooperative way.

Mr. JACKMAN: Would you not, Mr. Matthews, have to arrive at some basis of value of everything outside of trackage?

Mr. MATTHEWS: Trackage has never been a factor of depreciation by the Interstate Commerce Commission.

Mr. JACKMAN: You do have to arrive at some basis of value?

Mr. MATTHEWS: Not for trackage.

Mr. JACKMAN: But eliminating that you have to for everything else?

Mr. MATTHEWS: For your buildings and bridges, yes, you would. You would have to get your cost value.

Mr. JACKMAN: After all, under I.C.C. valuation for depreciation accounting they nevertheless do spend money and time. Mr. Cooper mentioned they have omitted trackage themselves. What was it they had to spend so much time and money on in the way of arriving at a starting figure for depreciation that we would not have to arrive at, too?

Mr. MATTHEWS: There are two reasons. In the 1928 order of the Interstate Commerce Commission it provided depreciation even on trackage, and that state went on from year to year. It was not until 1935 that the thing was resolved. They finally got down to the basis of deciding that trackage was not depreciable, but that other units were.

Mr. JACKMAN: In other words, if trackage is eliminated the job becomes much simpler?

Mr. MATTHEWS: Limited to the larger items. That is all we have ever suggested.

Mr. JACKMAN: Mr. Chairman, I must say while we cannot arrive at any conclusion or have all the pros and cons advanced at this hearing I do think there is a great deal to be said for depreciation accounting as compared with retirement accounting. Do they still use retirement accounting in the old country on railways? It is an old country practice, is it not?

Mr. COOPER: As I understand it they do not have depreciation accounting, that is, it is not mandatory. They go in for what they call replacement reserves. I might say that at one time I was in a British railway engineering department, and we used to build up what we called a renewal fund.

Mr. JACKMAN: Each year.

Mr. COOPER: And a replacement fund. The directors used to appropriate a lump sum of money and put it into a replacement fund according to the financial condition of the company. When they had a retirement of any magnitude they charged it to the reserve.

Mr. JACKMAN: To the replacement reserve?

Mr. COOPER: To the replacement reserve, yes.

Mr. JACKMAN: We are not in a position now to say whether or not the amount appropriated last year or in recent years through retirements was greater or less than would be placed in a depreciation reserve were we on the depreciation basis?

Mr. COOPER: For the Canadian National?

Mr. JACKMAN: Yes.

Mr. COOPER: I would say it was less.

Mr. JACKMAN: At the present time?

Mr. COOPER: Yes, sir. That in turn is all tied in with this question of the difficulty of getting men and materials to make replacements. Just as we have done in the case of rolling stock where we kept every last unit of equipment in service if we could, we have not been tearing down buildings which had any possibility of being kept in service.

Mr. JACKMAN: You still would be of that opinion if you included your deferred maintenance reserve?

Mr. COOPER: Not over the war years, no, but in 1946, of course, we did not charge expenses with anything on account of deferred maintenance. I do not mind admitting that, in general, charges to expenses are less under retirement accounting than they would be under depreciation accounting. I believe under depreciation accounting you build up a reserve over the years which, from the balance sheet point of view, is something that is very nice to look at, but that is all it would mean in our case. With ordinary companies, of course, it is an important element in their taxation problem. I do not think depreciation accounting can be divorced from taxation, but then we are not subject to income taxes.

Mr. JACKMAN: If the system is depreciating less under the retirement system now than under depreciation accounting you do not think we are piling up any trouble for an inevitable day?

Mr. COOPER: No, sir, I do not.

Mr. JACKMAN: It would also be my opinion that if we did have this uniform accounting and depreciation policy it would greatly facilitate the work of a rate hearing case such as the Board of Transport Commissioners have on their hands at the present time with a whole battery of very highly paid legal counsel there.

Mr. COOPER: On that particular point it occours to me one of the difficulties at the present hearing is due to the fact that the Canadian National accounts are on a system basis. Our figures all include our American operations. The matter before the Board of Transport Commissioners now is related to Canadian conditions, and it might well be from their point of view they would sooner see our accounts stated as a Canadian railway only. In other words, they might prefer the Canadian Pacific statement of accounts for rate hearing purposes as affecting Canadian rates and charges.

Mr. JACKMAN: Of course, under any system you would have to divorce your American properties from your Canadian properties, and their respective results, for a rate hearing case.

Mr. McCULLOCH: I move that this report be adopted.

Mr. HATFIELD: I second that.

Mr. LOCKHART: Before the report is finally adopted, in the light of the discussion that has taken place, and the very definite recommendations that are made here in the auditor's report, I am wondering whether the minister would care to say a word as to what he proposes to do. I am wondering whether we just simply pass the thing holus bolus and then forget about it until next year, or whether the minister has in mind taking some action in connection with it.

Hon. Mr. CHEVRIER: I do not know whether you were here when I referred to the statement that was made by my predecessor, Mr. Howe, and his setting up of a committee to deal with uniform accounting.

Mr. LOCKHART: Nothing was done.

Hon. Mr. CHEVRIER: A great deal was done but the committee could not agree.

Mr. LOCKHART: Nothing was accomplished.

Hon. Mr. CHEVRIER: We are in the same position here with reference to the auditor making a recommendation and the railway taking the opposite view. In that position—

Mr. LOCKHART: Well—

Hon. Mr. CHEVRIER: Just a moment. You have asked me for a statement. In that position I would take it the matter is one which should perhaps be disposed of by governmental action. All that I could say on it would be that I would first of all have to submit it to the Minister of Finance to get his views because the financing of the Canadian National Railways is a matter which is under his jurisdiction. If his views were in accordance with that then I could ask for the opinion of our colleagues, but if his view were not in accordance with the report then I suppose this report would be similar to the report of any other corporation. Recommendations by the auditors are made, some are accepted and others are left in abeyance.

Mr. JACKMAN: When the I.C.C. made a valuation of the road did they use cost, or cost less depreciation?

Mr. MATTHEWS: They used cost as far as they could, based on the original cost as far as possible. But really it went back, I think probably to 1917. I am speaking from memory now. To determine valuation and set the values they endeavour to use the original cost.

Mr. JACKMAN: Less depreciation?

Mr. MATTHEWS: Oh yes.

Mr. JACKMAN: I understood the C.P.R. adopted depreciation accounting some years ago.

Mr. MATTHEWS: I notice from the balance sheet at the end of 1946 that they had a depreciation reserve of $302,000,000. Of course, as you know, they built that up by appropriations and so forth in a very few years, but there it is. The Canadian Pacific, with assets of $1,200,000,000 have a depreciation reserve built up to over $300,000,000. As you know you can go back a very few years and you will not find those reserves there.

Mr. REID: Is that in cash? Are those reserves in cash?

Mr. MATTHEWS: No, it was a revision of their surplus appropriations and other things in previous years which they had a perfect right to make, but, nevertheless, the Canadian National have no such provision possible in their accounts at the present time.

Mr. JACKMAN: Do you recall what year it was they made the transfer?

Mr. MATTHEW:: Yes, about 1940, 1942, it was in very recent years.

The CHAIRMAN: Gentlemen, it has been moved that we adopt this report, excepting the Trans-Canada Airlines section?

Mr. JACKMAN: May I just ask a question?

Mr. LOCKHART: Before this report is passed, and I presume there is nothing else to do but pass it, and I am not indulging in any platitudes as I have considerable confidence in the minister and I believe he will make a real effort, but it does seem to me it is rather a useless thing to come back year after year and go through the same discussion. I have been on this committee for quite a little while myself and I just suggest to the minister he might, with his fertile brain, bring us a constructive plan to avoid future difficulty.

Mr. JACKMAN: May I ask whether Mr. Matthews wants to draw the attention of the committee to anything else in particular in his report.

Mr. MATTHEWS: No.

Hon. Mr. CHEVRIER: Gentlemen, we still have those three items.

The CHAIRMAN: Well, is the auditor's report carried.

Carried.

Well, we have the three items which the Honourable Mr. Chevrier mentioned.

Hon. Mr. CHEVRIER: The items are numbers 434, 435, and 479. 434 is the maritime freight rates. It results from the 20 per cent reduction in tolls, and the amount is $3,042,000.

Mr. JACKMAN: What is this all about? It is a lot of money to be passed so quickly.

Hon. Mr. CHEVRIER: It is the statutory vote which we cannot change. It is in the estimates but it is referred to this committee because it is in the railway budget and while we cannot change it, it is brought here so that it can be discussed.

Mr. JACKMAN: Of course there are many things in the budget we might like to change. What is the number of this item?

The CHAIRMAN: 434.

Shall 434 carry?

Carried.

What about 435?

Hon. Mr. CHEVRIER: That is the maritime freight rates act with respect to the railways, other than Canadian National.

The CHAIRMAN: Is 435 carried?

Carried.

There is one more, number 479.

Mr. JACKMAN: Both of those are statutory?

Hon. Mr. CHEVRIER: Yes. 479 is the vote for the Prince Edward Island car ferry and terminals deficit, 1947, the amount is $707,000.

The CHAIRMAN: We discussed that this morning did we not, Mr. McLure?

Shall 479 carry?

Carried.

Now, gentlemen, I think when we started at the first organization meeting it was suggested that we might skip a week. The budget is down and we might wait a week before going on with Trans-Canada Airlines.

Mr. JACKMAN: Our correspondence is piling up.

The CHAIRMAN: Yes, and there is an air session in Montreal starting on Tuesday and if it is agreeable with the committee we shall skip a week. It would give everybody a chance to catch up on his work and in addition it would give the air officials a chance to be down there in Montreal. Is that satisfactory?

Some hon. MEMBERS: Satisfactory.

The CHAIRMAN: I might say that I have a note here from Mr. Howe which says: We can go on to-morrow or alternatively next Tuesday. We should finish without undue delay but if the committee prefers a recess for a week that will suit Mr. Howe very well.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will meet a week from Tuesday then, and we will have the air officials all here. Before we go I want to thank the C.N.R. officials for being here and for their patience and courtesy.

Mr. VAUGHAN: I thank you, Mr. Chairman, and all the members of the committee for the consideration you have shown us.

The meeting adjourned at 6.00 o'clock p.m. to meet again on Tuesday, May 13, 1947.

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MAY 13, 1947

TRANS-CANADA AIR LINES ANNUAL REPORT (1946)

WITNESSES:

Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, Trans-Canada Air Lines;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

REPORT TO THE HOUSE

THURSDAY, 8th May, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1948, referred to your Committee on 22nd April, 1947, and approves of same:—

Vote 434, Maritime Freight Rates Act—Canadian National Railways;

Vote 435, Maritime Freight Rates Act—Railways other than Canadian National;

Vote 479, Prince Edward Island Car Ferry and Terminals—Deficit 1947.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

88852—1½

MINUTES OF PROCEEDINGS

TUESDAY, 13th May, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Belzile, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hatfield, Hazen, Jackman, Maybank, McCulloch (*Pictou*), McLure, Nicholson, and Reid.

Mr. H. J. Symington, President, Trans-Canada Air Lines, was called. He read the 1946 Annual Report of the Company and was questioned thereon. Mr. W. F. English, Vice-President and Mr. S. May, Auditor, Trans-Canada Air Lines, assisted the witness during the questioning.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply, was present and took part in the proceedings.

The Committee adjourned at 1.00 o'clock p.m. to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4.00 o'clock p.m. Mr. Clark, the Chairman, presided.

Members present: Belzile, Clark, Dion (*Lake St. John-Roberval*), Emmerson, Hazen, Jackman, Lapointe, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Pouliot, and Reid.

Mr. Symington was recalled and further questioned.

Right Honourable C. D. Howe was in attendance and participated in the proceedings.

On motion of Mr McCulloch (*Pictou*), the 1946 Annual Report of Trans-Canada Air Lines was adopted.

The Auditors' 1946 Report to Parliament, on the operations of the Trans-Canada Air Lines was taken as read and considered.

Mr. O. A. Matthews, of George A. Touche & Company, Auditors, was called and questioned.

The said report was adopted on motion of Mr. Reid.

In a farewell message to the Committee in which he announced his impending retirement from the presidency of T.C.A., Mr. Symington appealed for continued sympathetic understanding of T.C.A. difficulties.

The Chairman and Messrs. Howe, Jackman, Nicholson and Pouliot commented on Mr. Symington's efforts and expressed the appreciation of the Government, Parliament and of the people of Canada.

The Committee adjourned at 5.45 p.m. to meet again at the call of the Chair.

J. G. DUBROY,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,
May 13, 1947.

The Standing Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The Chairman: Gentlemen, we have a quorum. I wish to extend a welcome to Mr. Symington and his officials who are appearing before this committee this morning. In other years the procedure has been to ask Mr. Symington to read his report, after which members of the committee may ask such questions as they wish. Following that we shall take the balance sheet, if that is agreeable. I shall ask Mr. Symington to read the report of Trans-Canada Air Lines.

Mr. H. J. Symington, C.M.G., K.C. (President, Trans-Canada Air Lines):

Montreal, March 15, 1947.

To the Right Honourable the Minister of Reconstruction and Supply, Ottawa.
Sir:

The Board of Directors submit the Annual Report of Trans-Canada Air Lines for the calendar year 1946.

In spite of the uncertainties and difficulties of the post-war period, air transport made great strides in Canada. As equipment and skilled manpower again became available, Trans-Canada mainline service moved forward on a new scale. Many desirable services had to wait upon the coming of peace and the recovery of this lost time is a paramount concern of the Air Line to-day.

Although T.C.A. is about to complete its first decade of service and has achieved a great degree of maturity in that period, it is now more than ever in the process of intensive development common to all growing transport enterprises. This calls for unusually heavy expenditures and, as forecast in the last Annual Report, 1946 proved to be a difficult year from a financial standpoint. Costs were high. Training requirements were extensive. Throughout the year additional offices were opened and field facilities were expanded, in the expectation of spring deliveries of twenty-four DC-3 aircraft of 21-passenger capacity each. Industrial conditions were such that these deliveries were delayed so that these aircraft were not available for the peak traffic of summer and early fall. Later in the year low load factors were general on all air lines throughout the world. This occasioned the Company real financial loss, especially as extensive preparations had been made in anticipation of earlier usage.

Routes and services were increased generally. The fleet was enlarged and improved. Preparations were made for the Air Line's assumption of the Atlantic operation on a full commercial status. Training of specialized personnel, particularly pilots, was advanced to a point where adequate staff has for some time been available for the carrying out of the expanded program.

Co-operative effort with the Department of Transport pointed the way to a general improvement in Canadian airports and airways and to better scheduled

performance for aircraft. Through a continuous participation in the councils of the world air authorities, the Company played an important part in the standardization and rationalization of international air practices.

Passengers carried increased by 67 per cent. Air express poundage rose by 10 per cent, but air mail pounds fell by 32 per cent.

Daily scheduled miles totalled 45,021 at December 31, 1946, an increase of 12,667 miles per day or 39 per cent. Route miles had risen from 5,299 to 6,511. During the year, 15,864,670 miles were flown, as compared with 11,546,227 miles in 1945, an increase of 4,318,443.

A fourth daily transcontinental service was inaugurated between Montreal and Vancouver on April 1. Schedules were arranged to give improved service to Calgary and Edmonton, including a direct flight from Calgary to Vancouver.

Air transportation knit Canada and the United States even more closely together as four new routes were opened across the border. Two-and-a-half hour flights began between Toronto and Chicago on July 1, one-and-a-half hour flights between Toronto and Cleveland on August 1, one-hour flights between the Canadian Lakehead and Duluth on September 16 and fifty-minute flights between Victoria and Seattle on November 1. Stops are made at London on the Chicago and Cleveland routes.

Other service extensions were a fourth Toronto-New York schedule on April 15 and an increase in Vancouver-Victoria flight frequency from two to eight daily in November.

A general development of the Air Line's traffic organization took place during 1946. More ticket offices were provided and staffs were increased. Telephone answering service was placed on a twenty-four hour basis and reservation procedures adjusted to the heavier passenger flow.

Result of Operations

	1946	1945
Operating Revenues	$12,810,805	$10,512,588
Operating Expenses	13,943,939	10,250,272
	$ 1,133,134	$ 262,316
Miscellaneous Income Net	$ 17,878	$ 456
Interest on Capital Invested	—	$ 230,000
Deficit 1946 - Surplus 1945	*$ 1,115,256*	$ 32,772

Operating revenues totalled $12,810,805, an increase of $2,298,217 or 22 per cent over the preceding year. Passenger revenues increased $2,602,537 or 48 per cent; mail revenues decreased $470,430 or 11 per cent; express revenues decreased $2,148 or 1 per cent; revenue from sales and service increased $77,841 or 26 per cent; other revenue increased $90,417. Passenger revenue contributed 63 per cent of total revenue and mail revenue 30 per cent.

The lifting of wartime priority restriction, the scheduling of additional flights and the use of larger aircraft brought air transport to more Canadians. The deterioration in the volume of air mail traffic was serious for T.C.A. because of a new mail contract with the Post Office Department. This agreement, which became effective on April 1, established pound-mileage as the basis for mail pay and thereby left the Air Line vulnerable to any decline in mail volume. Air mail poundage fell off by 32 per cent and air mail revenue by $470,430. Receipts were $2,000,000 less than they would have been had the Company been paid under the old agreement on a basis of mileage operated.

Operating expenses totalled $13,943,939, an increase of $3,693,667 or 36 per cent over the previous year. There was an increase of $2,346,000 or 23 per cent because of expansion and intensification of services and higher material costs. Payrolls increased by $400,000, due to higher wage rates. There was an increase of $948,000 covering training of personnel, depreciation and insurance on the new equipment acquired for the development of new routes and services.

After the income credit of $17,878, there was a deficit of $1,115,256.

The Company's reserve covering self-insurance of aircraft and other equipment, and liability to passengers and public, increased by $404,696 during the year. Accrued depreciation on aircraft and other property increased by $1,595,811.

Resulting from the 1945 amendments to The Trans-Canada Air Lines Act, 1937, the practice of charging operating expenses with 5 per cent interest per annum on invested capital, paid to the Canadian National Railways, was discontinued in 1946. For the year 1946 the return to the Railway is in the form of a dividend of 3 per cent per annum ($154,368) on invested capital, paid out of T.C.A. surplus.

Property and Equipment

T.C.A. flight equipment as of December 31, 1946, consisted of:

27 Douglas DC-3 aircraft, 24 of which are equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower, and three equipped with two Wright Cyclone engines, each of 1200 horsepower.

14 Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower.

9 Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower.

Three additional DC-3's were on order at the close of 1946. Two of them are passenger aircraft, while the third is for cargo use.

With the acquisition of the DC-3's, the Company began to retire the Lockheed aircraft, which are being offered for sale as they are released from service.

One of the year's pressing problems was that of finding sufficient accommodation at the airports for T.C.A.'s developing organization and passenger requirements. Appreciating the necessity of avoiding, as far as possible, any new construction at the present time, the Air Line took steps to use buildings previously devoted to military purposes.

At Winnipeg, the Air Line's operations headquarters and site of the main repair base, additional office space was taken in nearby R.C.A.F. buildings and a former Air Force hangar was used as a stores depot.

In Edmonton and Toronto, arrangements were made to rent Air Force hangars.

At Montreal, T.C.A. acquired two large hangars previously used by the R.A.F. Transport Command.

At Vancouver, the Company acquired the large Boeing overhaul hangar which can serve domestic operations now and the proposed Pacific service later.

New and intensified schedules called for a system-wide improvement in ticketing facilities. Accordingly, traffic offices were opened in Chicago, Cleveland, Port Arthur and Seattle, while established offices were expanded at other points.

Routes and Services

At December 31, 1946, Trans-Canada Air Lines was providing service—passenger, air mail and express—over domestic routes totalling 6,511 miles between the Atlantic and Pacific. This was an increase of 1,212 miles or 23 per cent over 1945. The routes operated are as follows:

	Miles
Halifax—Victoria (via Moncton and Toronto)	3,307
Moncton—St. John's, Newfoundland	751
Halifax—Sydney	201
Halifax—Blissville	177
Toronto—New York	365
Toronto—London	97
Toronto—Cleveland	211
London—Cleveland	171
London—Chicago (via Windsor)	368
Fort William—Duluth	178
Regina—Vancouver (via Calgary)	281
Lethbridge—Edmonton	301
Victoria—Seattle	103
	6,511

Passenger Service

Revenue passengers number 305,442 in 1946, as compared with 183,121 in 1945, an increase of 122,321 or 67 per cent. The average passenger journey was 510 miles, as compared with 579 miles in 1945. Revenue passenger miles increased 47 per cent. Passenger revenue per revenue passenger was $26.41 and per revenue passenger mile 5·18 cents, as compared with $29.83 and 5·15 cents respectively in 1945.

In April, the Department of Transport authorized the abolition of the wartime passenger priority system and a return was made to normal reservation practices.

Improvements in passenger service included the provision of hot meals on the DC-3 aircraft. Reservation procedures were revised to provide faster service and to meet the much heavier flow of traffic.

Air Mail Service

The shrinkage of air mail volume which began in 1944 was greater in 1946. Mail amounted to 2,325,977 pounds, as compared with 3,429,232 pounds in the previous year (a decrease of 32 per cent) and 3,739,105 pounds in 1944.

Air Express Service

Air express increased 10 per cent, from 950,323 pounds in 1945 to 1,043,713 pounds in 1946. The average haul, however, was shorter and pound miles decreased 5 per cent.

Airway Facilities

Close co-ordination was maintained with the Department of Transport in the improvement of runways, field facilities, airport and navigational aids.

Construction of the Great Lakes airway progressed. When completed, this will permit flight between Toronto, Sault Ste. Marie, Port Arthur-Fort William and Winnipeg, cutting many miles and minutes from the transcontinental route north of the Lakes.

Work began at Winnipeg, Lethbridge and Toronto on the runway extensions needed for the scheduled operation of four-engined aircraft.

Although equipment was scarce, the first steps were taken towards the provision of instrument landing systems at Canadian airports. These electronic devices will facilitate scheduled performance of aircraft when visibility is limited.

T.C.A. continued to expand its network of very high frequency radio stations throughout the Maritimes and Central Canada. These provide static-free communication with the aircraft in flight. At the end of the year fourteen such installations had been completed and work was proceeding along the Montreal to Windsor airway.

Personnel

The staff of Trans-Canada Air Lines at December 31, 1946, was 3,641, as compared with 2,388 at the end of 1945. In addition, 796 employees were engaged in the Canadian Government Trans-Atlantic Air Service.

The Company had in its employ 2,371 men and women formerly in the Armed Forces. They are performing efficiently as pilots, mechanics, traffic and clerical employees and, indeed, in all areas of T.C.A. activity.

Staff training was required not only for newcomers to the Air Line but also to acquaint employees in general with the new aircraft and the changed techniques brought about by the development of traffic.

It became necessary to train many additional pilots for the increasing operations and larger fleet. Carefully selected former R.C.A.F. personnel were assembled at Winnipeg for intensive flight and ground instruction. New First Officers to the number of 147 qualified for T.C.A. service.

Approximately 1,700 maintenance employees were trained in the servicing of the DC-3 aircraft, different in many respects from the Lockheed equipment with which they had been familiar.

Special Activities

Canadian Government Trans-Atlantic Air Service

T.C.A., as the operator of the Canadian Government Trans-Atlantic Air Service, made its one thousandth crossing of the Atlantic in December. Under the Company's direction, schedules grew from twice weekly to a daily round-flight on the 3,000 mile route between Montreal and the United Kingdom. By the end of the year, the Canadian Atlantic service had come to rank in performance with any of the other international air lines. Almost 600 crossings were made without incident in 1946 and there were no scheduled flights cancelled.

On September 15, the trans-Atlantic route was extended to London. Prestwick airport, near Glasgow, remained the United Kingdom maintenance base. T.C.A. took complete control of all passenger reservations both east and west-bound, trans-Atlantic passage being obtainable in all domestic offices.

The trans-Atlantic service, conceived in wartime to meet emergency transportation needs, will be operated by a T.C.A. subsidiary company, wholly owned and controlled by the Air Line. T.C.A. will soon introduce its own four-engined aircraft, larger and more suitable for passenger carriage than those first used in the service.

T.C.A.'s trans-Atlantic flight crews, maintenance personnel and technicians are experienced and are fully qualified to assume tomorrow's larger responsibilities. The trans-Atlantic service is Canada's first venture in the international air and T.C.A. will seek to develop with the same regard for quality that has attended the growth of the domestic system.

Service to Other Air Lines

The interdependence of world air transport was seen in T.C.A.'s growing service to other lines. In 1946, the Company handled the many flights of the

various trans-Atlantic operators that stopped en route at Sydney and Moncton. At Goose Bay, in Labrador, T.C.A. agreed to organize and operate in 1947 an international hotel for the use of all trans-Atlantic travellers. Following the departure of the R.A.F. Transport Command from Dorval Airport, the Air Line accepted responsibility for a wide variety of airport functions. At Vancouver, T.C.A. serviced the trans-Pacific flights of Australian National Airlines and in Western Canada provided radio communications for Northwest Airline's operations to Alaska and the Orient.

Goose Bay, Labrador, Service

At the request of the Department of Transport, T.C.A. completed arrangements for the operation of a fortnightly service between Montreal and Goose Bay. These flights are primarily for the convenience of the Department's own personnel and the contractors at work at the Labrador air base. However, other passengers and cargo are carried as offered.

Work for British Overseas Airways Corporation

A wartime servicing agreement was terminated on November 30, when T.C.A. ceased its maintenance and overhaul of British Overseas Airway's Liberator aircraft at Montreal. The contract was designed to assist the British Company in its movement of ferry pilots.

Four-Engine Aircraft

It had been hoped that the first of the four-engined North Star aircraft being built by Canadair Ltd. at Montreal would go into T.C.A. service in 1946. But here again, the difficulty of procuring materials delayed manufacture. These 40-passenger aircraft will be introduced on the Atlantic route where their high speed and comfortable interior arrangements will improve the quality of trans-oceanic travel. Soon afterwards they will be seen in Canada and on a new service to Bermuda. Powered by liquid-cooled Rolls-Royce engines of British manufacture and based on Douglas airframe design, the North Star is a blend of the world's foremost aeronautical skills.

Proposed Services

The pace of T.C.A. growth will be determined by public response to air transportation. Certain specific extensions and betterments are planned for domestic air transport in 1947. With the completion of the Great Lakes airway, it is anticipated that flights between Toronto and Winnipeg via Sault Ste. Marie and the Lakehead will be possible this summer. Inauguration of the postponed Winnipeg-Saskatoon-Edmonton flights is similarly dependent upon completion of airport construction at Saskatoon. This operation will also begin in 1947. Service between Halifax, Saint John and Boston will begin in April, with a stop at Yarmouth. Windsor, Ontario, will be added as a traffic stop to the Toronto-Chicago service. The frequency of flights will be increased on eastern inter-city routes and between Vancouver, Victoria and Seattle during the summer months. A wider use will be made of the larger DC-3 aircraft and a transcontinental schedule with four-engined North Stars is planned.

T.C.A. will open a service to Bermuda with large aircraft and West Indian, South American and trans-Pacific operations are being studied.

Financial Considerations

The great service which aviation can render to the public interest, including commerce and industry, is widely recognized. Nevertheless, current conditions render immediate financial prospects very difficult to estimate. Material and labour costs are still rising and everywhere the major air lines are hard-pressed.

T.C.A. will strive for stability during the period of economic adjustment in the air line industry. Promotional activity to stimulate public understanding and acceptance of aviation will be intensified. New revenue sources will be developed, including possible carriage of first class mail by air and an air freight service. The Air Line will relate its scheduling closely to seasonal traffic trends. Expenses will be carefully controlled.

The Staff

It has been customary to regard T.C.A. employees as "young" men and women. In actual age, they are. But with the Air Line now in its tenth year, there are many who fully qualify as veterans in experience and who have helped build Canadian aviation from its inception.

To the members of the staff, the Directors extend their appreciation of service loyally given and valuable work well done.

The Chairman: Do you wish to make any other statement before the committee proceeds to question you?

Mr. Symington: Just as the committee likes. Naturally I am rather full of things after the difficult year, but perhaps it can arise best by questioning on the figures.

Mr. Jackman: The results of the year are very disappointing, and on behalf of the irate citizen shareholders may I ask Mr. Symington what about it?

Mr. Symington: Yes, sir, I would be very glad if you would.

Right Hon. Mr. Howe: Are you the representative of the irate citizens?

Mr. Jackman: That is our bounden duty, Mr. Minister.

Mr. Symington: The committee will remember that last year I told them this was going to be a very difficult financial year. It has been a very difficult one, even more difficult than I anticipated.

The primary difficulty arose from the fact that we did not get our aircraft in time for the peak loading months of the year. We had trained not only pilots but a whole maintenance staff and ticketing staff for the new operations. In an air line it is a major operation to switch from one particular aircraft to another. The switch which was made of necessity from the Lockheed to the Douglas caused a great deal of necessary expense to the air line. We did it anticipating that we would have planes ready for the peak months. Our judgment was wrong. We did not get the planes until late in the summer when the peak was over.

In addition to that we had certain men in training longer and earning no money than we would have had had we got delivery of the planes. Expenses, as you see, increased very materially, but although the cash showing is not good I would point out that we are depreciating the DC-3's in three years. That we consider essential and wise because of the quick changing character of airplane developments.

The committee will remember last year it was suggested we should not have bought those planes. There is no plane yet produced that compares with the DC-3 for two engine operation, and no plane produced which can operate in Canada because of the required range. There have been three planes promised for the last three years. None of them are yet flying in service. Had we waited for them we would have had no planes at all. Secondly, they are planes that are conceived for what we call short range operations. They are prepared for operations in the United States where every few hundred miles there are cities of a respectable size which give rise to air traffic. The result is these planes are devised with the idea of very fast and very heavy loading for a short distance. In other words, they cannot carry the gasoline to get you the range. When you

come to operate in Canada they are unsuitable for the Canadian operation because you would have to leave off passengers to put on gas even if they had the necessary tanks to carry it.

The three planes have not flown in service. There have been several of them ordered and several orders for one of them cancelled. I believe one, according to reports, will probably be abandoned. We went into our situation with these manufacturers telling them our requirements as to range, loading, etc., and gave them a chance to see whether they would build us the planes which were required for the particular type of operation in this country. While they were all very anxious to do business with us they said they could not provide us with a plane because it was a different operation from the planes they were building, the market was not big enough, and they could not furnish us with those planes. You can understand that those planes would operate with efficiency when they do operate as they undoubtedly will— two of them, anyway,—in the east and in the inter-city business, but there they end because they have not got the range for further operation.

Gentlemen, you cannot operate an air line with any sort of efficiency or economy with a whole lot of different kinds of airplanes. You have to have different maintenance crews, different pilot training and there is a complete lack of flexibility if you operate with different kinds of planes. You have to have very large stores inventories, spare parts, etc., so that the aim and object of all air lines is to operate types of the same character. The types which we operate are Douglas types. The DC-3 was the greatest improvement in airplanes when it came in that had been made. It is still by far the airplane most used, and the Douglas company have had to restore what they expected to have abandoned, namely the manufacture of spare parts for Douglas DC-3 craft.

The DC-3 craft has a disadvantage so far as Canada is concerned. It cannot go over the mountains with one engine. Therefore we are forced to run a different type of aircraft from Calgary or Lethbridge to Vancouver. That is not a particularly desirable operation, but until a two engine aircraft is designed which can do it, or until we adopt, as we will probably have to, four engine aircraft that operation is an operation which is costly and difficult because you bring ten or fourteen passengers in good weather across the mountains to fill a 21 passenger plane. You take from a 21 passenger plane into a 14 passenger plane your passengers who are going to Vancouver, all of which creates some difficulties and disturbances.

The cause of some of the expenses you will see in our tremendously increased non-revenue mileage. The non-revenue plane miles flown were 1,702,293, as opposed to 1,040,152 last year.

Mr. Hazen: What page is that?

Mr. Symington: That is on page 14 at the bottom of the page, statistical data. That is the effect of the training of the larger body of personnel which was required for the larger number of planes we had, and the changing character of the planes which we had and, of course, cost us a great deal of money.

I have taken off what I consider abnormal expenses under the operating conditions under which we operated in 1946. Aircraft depreciation and insurance on account of the acquisition of DC-3 aircraft fleet with greater insurance values and a shorter depreciation period, $648,000.

Mr. Hazen: From what page are you reading?

Mr. Symington: I am not reading from the report. It is from my detailed figures of explanation of our revenues and expenses. It is a matter of adding up. If you look at that same page 14 under operating expenses you will see flight equipment depreciation, $1,388,635 as opposed to $785,000.

Mr. Hazen: Is that page 14?

Mr. SYMINGTON: Yes, under operating expenses, the third item. There are other depreciation items, of course, but that is the main one.

Mr. HAZEN: I think there is an item of insurance some place, too, that you referred to?

Mr. SYMINGTON: Yes, there is.

Mr. HAZEN: I do not know where it is now but I saw it.

Mr. SYMINGTON: That is at the top of page 15, flight equipment insurance. Then there were increased payroll expenses on account of increased salary schedules of $400,000. That is not numbers but increased salary expenses. There were increased training expenses due to the expansion and conversion of crews from Lockheed of $300,000. The total of those is $1,348,000.

Mr. HAZEN: You spoke of the total of those items, that is training expenses, increased pay-roll—

Mr. SYMINGTON: Depreciation, pay-roll and training expenses.

Mr. HAZEN: I thought that the depreciation was $1,348,000?

Mr. SYMINGTON: No, those are the abnormal expense increases over the previous year—$648,000.

Mr. HAZEN: The increase?

Mr. SYMINGTON: What I am trying to give you is that our expenses increased last year $3,694,000, and I am trying to give you how those increases came about, and I have given you depreciation, insurance due to the acquisition of the new aircraft $648,000; increased pay-roll expenses by reason of wage increases alone, $400,000; increased training expenses due to the conversion and expansion of the services, $300,000, and this total of $1,348,000; administration expense increases which were due to the expansion of the services from which additional revenue was, of course, earned: gasoline, oil, de-icer fluids were up $400,000 over the previous year. Passenger expenses, food, insurance, etc., were up $270,000; rents and landing fees $87,000; telephone, telegraph and teletype $66,000; office supplies and expenses $84,000; crew cycle and O.C.S. travelling expenses $244,000. We had to move our crews around to familiarize them with all the new routes and the new aircraft upon those routes. Advertising and publicity, $157,000; pay-roll increase to staff, $900,000; pensions, taxes, $90,000; agency commissions, $24,000; miscellaneous, $24,000; or $2,346,000, $3,694,000 being the increased expenses over last year.

Mr. JACKMAN: As some of this staff you have mentioned require training, what indication is there that that has been a good investment on which you will at least get the dollars spent back, if not something extra? I am raising that point because the minister said yesterday, in answer to a question by Mr. Maybank, that there was a certain amount of lay-off in Winnipeg at the present time of trained personnel.

Mr. SYMINGTON: What happened in the lay-off is a perfectly natural situation in that we have a great deal of cargo space, whether for mail or otherwise, that at the moment is not filled, but the planes are there to do the business if, as and when the business is to be done. Now, with respect to the lay-off, what happened was the logical thing. The staff, for instance, for the repair services of the Lockheeds was a large staff because one of the weaknesses of the Lockheed was its thin shell which blistered and had to be changed continually. The Douglas is a more rugged plane and has a stiffer shell. We have practically no maintenance on the shell. The result was that forty to fifty men who had to be retained for that particular purpose are now, with the change in the type of aircraft, no longer required. Now, these men are good men and will come back into some feature of the maintenance program as and when we get enough business to justify the run and enough frequencies to fill our capacity. Then,

of course, in the DC-3 conversions—apart from the conversion you get at the plant itself—whether you buy a new plane or not—it still has to be amended in many ways or changed in some ways by our own people. We test that plane; we make changes in it in accordance with our tests, and we had a good deal of trouble with the DC-3 conversion in the matter of heating and oil pressure, all of which called for maintenance and engineering work in our own shops. Now, that work is all completed and, therefore, we have laid off some men; because I cannot, of course, submit to any doctrine that I must hire men that I do not require. I think that will meet with the approval of the committee. Nonetheless these men are valuable trained men and if the air line expands at all, as everybody expects it will, they will have their seniority and they will be the first men back. However, we have to get some reduction and we have been looking at our lists pretty hard to see where we can save a dollar here and there because I do not like to lose money, Mr. Jackman; that is the surest thing you know. We have done everything we can to see what we can do to reverse this position in as far as T.C.A. is concerned and which, in the figures I will give you in a moment, is completely general throughout the industry; and that situation is far worse elsewhere than it is here, in spite of the fact that I maintain that we have the most difficult operating conditions to contend with of any air line in the world. The money lost in Canada on last year's operations as compared with the United States and Great Britain, why, it is just a flea bite. Of course they are running larger systems, but comparing our line with a line of any similar character in the United States some are losing more money than we are.

Mr. Hazen: Have you the comparable figures?

Mr. Symington: I have, sir.

Mr. Jackman: How many men have been laid off recently and are they all, shall I say, riggers who fix up the planes or that part of the plane which you mentioned, the fuselage? You mentioned that there was a lot of patching to be done?

Mr. Symington: Yes. They are mechanics; sheet metal workers.

Mr. Maybank: A moment ago you were using the figure of forty-odd. Newspaper reports referred to a couple of hundred. From the way in which you have explained this matter it does not look as hopeful for these men as did the interviews that were given out in Winnipeg. I am rather disturbed over the development of a pool of unemployed men. I did not intend to take this matter up now, but you and Mr. Jackman, between you, got into this matter and I decided that it should be taken up. Now, what is the figure that we ought to have? Is it 40-odd or 200?

Mr. Symington: Well, at the moment it is 200.

Mr. Maybank: Are all of those 200 to await, as you say, upon the development of traffic, or is there some other hope of their early return to employment? I certainly got the impression from the interviews given in Winnipeg that there was a greater hope than traffic development.

Mr. Symington: It bears on development of traffic mostly. Of course, when we start the four-engine operation across the country that will require a certain number of men to look after those planes.

Mr. Maybank: But it is 200 at the moment in Winnipeg. I suppose there are others in other places? How many?

Mr. Symington: At Dorval and so on.

Mr. Maybank: How many were laid off altogether in recent days?

Mr. Symington: About 300.

Mr. Maybank: What would be the length of employment of these men? Would some of them be there for a matter of weeks and some for a longer period,

or are they mostly men who have been there for long periods? I know their employment would not exceed ten years; but are they men who have been recently employed?

Mr. SYMINGTON: Mostly about six months.

Mr. MAYBANK: One of these men, according to a newspaper interview, said that it had been indicated to him when he was employed that he was going to have steady work. Is there any background to that?

Mr. SYMINGTON: I cannot say that. I do not know whether anybody here can.

Mr. MAYBANK: Mr. English, I am sure, has seen what I am referring to. Without recalling or even attempting to recall the person—because I do not think that matters—Mr. English, I am sure, will tell you that it was recorded in the newspaper that they had been assured steady employment. Now, is there any background for that?

Mr. ENGLISH: No more than with any other organization. The fact of the matter is this, that most of these people—so many people are anxious to get employment with the T.C.A. They feel there is a future in the company. Some of them have left other jobs to come to T.C.A. But there has been no guarantee of employment to anybody in the country. We have no such thing as a contract with anybody. We give nobody a guarantee of steady employment.

Mr. MAYBANK: I know there is nothing like a contract, but I think that these people are complaining that steady employment was held out to them as a decided possibility.

Mr. ENGLISH: If that was held out to them it would be through their organizations and not through the company.

Right Hon. Mr. HOWE: Is it not true that in any kind of company you get what the traffic needs?

Mr. MAYBANK: Yes. I want to be sure that if there are fluctuations we can expect a movement the other way.

Mr. SYMINGTON: The more you are able to operate your planes and the larger number of hours they are in the air, the overhauling of them is much more frequent and you require your maintenance men to do that. It all turns on the amount of traffic and the use of the planes.

Mr. MAYBANK: In this case it is a question of maintenance because we are going to operate more and that calls for more employment?

Mr. SYMINGTON: Quite so.

Mr. REID: I wish to ask another question with regard to man-power. I understand that there was spent over $1,000,000 on non-revenue plane miles flown, and I take it that this had to do with the training of certain men. Now, realizing that it costs a considerable amount of money to train personnel, is there any agreement or bond requiring these men to stay with the company for any particular length of time? I know that when you lay a man off that is a different situation; he can hunt around and go somewhere else and find another job; but I am thinking of the expense involved in training personnel when a man may say, "I do not like your working conditions" or "I do not like your salary and I am going to work somewhere else"?

Mr. SYMINGTON: Yes, he can. We have not had any experience with men leaving, but they can go. We cannot tie them in any way that I know. They get their training. They seem to like that type of life because we have had few if any who have resigned.

Mr. REID: I am not saying you should do this; but there should be some responsibility that the nationally trained person should stay on the job.

Mr. SYMINGTON: We screen these people carefully; we learn their past history and what they have done; we learn all about them—their character and everything else is very carefully screened before they are taken on. Then when we take them on in the first stage of their training their habits, their thoughts and their methods of life are watched closely. If there is one fellow we do not think is going to stick why he goes out early before costing us any more expense—he goes out in the early time of his training rather than at a later time. I do not know how you can control the matter in any other way. That matter certainly has not caused us any trouble up to this time.

Mr. EMMERSON: I would like to ask Mr. Symington if this reduction in staff at various points is due to any change of location of repairing? I noticed a statement in the Saint John *Telegraph* the other day that some 60 men would be let out at Moncton because the overhaul and repair work was to be transferred to Dorval.

Mr. SYMINGTON: There is some of that. For instance, our trans-Atlantic overhaul will all be done at Dorval. Of course, we offer the job at the place where the work is to be done. We do not fire somebody there and take somebody on without giving the other fellow an opportunity to do the work. However, while this line is in the stage of development and reaching maturity there will, of course, be switches of that kind. It depends upon the renewing of new planes, and the old planes. It is like the abandonment of the 170 mile railroad shops. There would be concentration of work at Dorval with respect to trans-Atlantic flying. On the other hand, we have considerably extended our maintenance and repair work at Moncton and at Toronto and at Vancouver, whereas it was nearly all done at Winnipeg before. We decentralized a good deal on that. These are the things you learn; and of course you have to have a certain number of frequencies in order to justify the setting up of a maintenance shop. These are things which turn on progress and change. You have to meet the conditions in a fast changing industry as they arise. I think, probably, that some of the men at Moncton would be offered positions at Dorval but would not want to leave and, therefore, a few of them—not many—would be out. That may be possible.

Mr. ENGLISH: They would be all given the chance to move.

Mr. HAZEN: If I followed you correctly, this large deficit was due to the fact that you did not get the planes in time for the new operations which you had in mind?

Mr. SYMINGTON: That contributed, but that is not entirely correct. I have not got through with my story.

Mr. HAZEN: Oh, I beg your pardon.

Mr. SYMINGTON: I was trying to take the actual figures and show you our expenses and why they had increased; but as a contributing factor, a disappointing factor, I thought it would be a different financial year—I did not expect it would be so difficult because we had expected these planes in the peak times of the year and we did not get them.

Mr. HAZEN: Perhaps I was interrupting you—

Mr. SYMINGTON: Not a bit.

Mr. HAZEN: With regard to the planes you referred to and which you did not have delivered, were they DC-3's?

Mr. SYMINGTON: Yes, being converted.

Mr. HAZEN: Being converted by Canadair?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Twenty-four of them?

Mr. SYMINGTON: Twenty-seven. We bought twenty-four in one lot. We had a chance to get them. The original three—

Mr. HAZEN: You got those in the United States, I think, last year. The twenty-four you had to reconvert?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Have you got these others yet?

Mr. SYMINGTON: Yes, we have them now.

Mr. HAZEN: When did you get delivery of them?

Mr. SYMINGTON: They came off the line at various times. I will try to give you the dates. You see, Canadair had a lot of contracts for various countries all over the world and to do the business they had to give everybody an occasional plane just as they gave us an occasional plane. In July we got ten, in August we got five, in September we got two, in October we got five, in November we got one and in December we got one more.

Mr. HAZEN: Now, with regard to the operations that you had in mind, the operations that you intended to use these planes for, have you got those new operations going now?

Mr. SYMINGTON: Pretty much. We are not through expanding, because we have planes enough to expand. Let me give you an instance. We had anticipated, for instance, about those twenty-one passenger planes which can be run more cheaply than the fourteen.

Mr. HAZEN: The DC-3's?

Mr. SYMINGTON: Yes, replacing the Lockheeds. We expected to extend them from Toronto to Winnipeg on May 1. We did not extend and were not able to extend until September 15. We had intended to extend the route to Lethbridge in June and we did not accomplish that until December. That means that there were planes with great capacity, relatively, which would have carried more traffic and earned more money, and we had prepared all our internal structure for it.

Mr. HAZEN: Those are the two operations you had in mind for those twenty-four planes?

Mr. SYMINGTON: Well, there is the maritimes, for instance. We did not get the maritimes in until this year, and we had intended to put the DC-3's in the maritimes last summer.

Mr. HAZEN: You are writing these DC-3's off in three years?

Mr. SYMINGTON: Yes.

Mr. HAZEN: What is the reason for that?

Mr. SYMINGTON: The reason for that is that the DC-3 is, as aeroplanes go, an old plane. It was in use a good many years.

Mr. HAZEN: Did you not tell us last year that the DC-3 was the finest two-engine plane in the world?

Mr. SYMINGTON: I still think it is to-day, just as I said it was last year; but there are other planes that have actually been built that are coming in, which, as a matter of performance and cost, puts the DC-3 out of business. They are not yet flying. They will be flying some day, no doubt, and they will reduce the costs and will retire the DC-3 some day. The question is whether we will fly them in Canada or not. That is a very great question. Nevertheless, the advances in the art are very great. For instance, we ourselves have been experimenting with a two-engine jet that would put these planes completely out of business. Therefore, we consider it good business, not because of depreciation but because of obsolescence to depreciate those planes in three years. If those planes do come in and you are left with much poorer ones you are going to suffer accordingly.

Mr. HAZEN: Where are these new planes being built—in the United States?

Mr. Symington: In the United States—the Convair, the Martin 202 and the Martin 303. I never trust any manufacturer on what he says to me when he says he is going to do something, because those planes should have been flying a year ago.

Mr. Hazen: You did not anticipate them two years ago, did you?

Mr. Symington: Yes, we were following them day by day, but they would not have suited the Canadian situation. Here we had a chance to get twenty-four planes that would do the job and we bought them.

Mr. Reid: Mr. Symington, have you anything further to say, other than what has appeared in the press, regarding the loss of the T.C.A. plane recently?

Mr. Symington: Not a thing, sir. We know of nothing that could have been done that was left undone. We do not know the cause of the accident and probably we never shall. It has been a very harrowing experience.

Mr. Reid: No trace of any kind has been found of the plane?

Mr. Symington: No.

Mr. Hazen: How old was that plane which disappeared?

Mr. Symington: Five years.

Mr. Hazen: And how much experience did the pilot in charge have?

Mr. Symington: Oh, he had long experience. He had flown this same route continuously for 267 flights. He has been with the line a good many years.

Mr. Jackman: I suppose the engine was replaced several times in that period?

Mr. Symington: Oh, yes, a major No. 7 overhaul. You have practically a new plane.

Mr. Jackman: May I revert again to the matter of these lay-offs; 300 was the total number, was it not?

Mr. Symington: 300. I am not saying that there will not be more; it may not be at the same places; but in some places there may be more. After all, when you try to do things too quickly you over expand a little and men are not required and you have to let them go.

Mr. Jackman: What are the classes of employees that these figures embrace as well as mechanics? Are there any pilots who have been laid off up to the present time?

Mr. Symington: Well, we have stopped any more schools of pilots. We stopped the last training school of forty.

Mr. Jackman: You stopped the class and let them out?

Mr. Symington: Yes.

Mr. Jackman: You have not temporarily let out any pilots?

Mr. Symington: No.

Mr. Jackman: Does the pay of your reserve pilots, those who are not doing any work for you at the time, continue during the time of non-operation? I presume that you have reserve pilots, and if you have not let out any of the trained and experienced pilots do they get paid even if they are not flying?

Mr. Symington: Yes, they get paid the minimum. They fly fewer hours, that is all.

Mr. Jackman: Do they get paid a guaranteed wage plus so much per mile of flying?

Mr. Symington: They get paid so much for a certain number of miles.

Mr. Jackman: May I ask a question about the seasonal trend of T.C.A. business during the year?

Mr. Symington: The best months are May to October and the worst months are November, February, March and January.

Mr. EMMERSON: Is that due to weather conditions?

Mr. SYMINGTON: That is due to weather conditions partly. People do not want to travel—of course, there were the accidents in the air this winter and they made a great difference. If the day is cloudy people may decide not to fly. It gets so that the business goes up and down with the weather.

Mr. JACKMAN: Would you get twice as much traffic during May and October as you do the balance of the year?

Mr. SYMINGTON: At present, yes. Whether that will continue, I do not know. We hope that our ability to go above trouble, and the better landing devices which are being put in will be the answer. As a matter of fact, I should think winter is a better time to travel by air than summer except in certain stormy areas, but it is a matter of the public learning that is probably just as safe a time to fly as any other time.

Mr. JACKMAN: What have you done about fares?

Mr. SYMINGTON: Fares have been increased on April 1st by 10 per cent both in the United States and Canada.

Mr. JACKMAN: April 1, 1947?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: Discounts on credit cards are off, too?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: The 10 per cent is in addition to that, is it?

Mr. SYMINGTON: With the discounts being off and the shorter distances it amounts to about a 10 per cent increase over all. Every specific one may not be 10 per cent, but over all it is about 10 per cent.

Mr. REID: You may have explained this, but what development is going on at Goose Bay, Labrador? I see that you have gone into the hotel business there, and that you are operating a flight which is for personnel and contractors. That must cost considerable money.

Mr. SYMINGTON: There is a big operation there militarily. Of course, it is on the great circle, and foreign air lines and American air lines land there, some by choice and some if Gander is out, but it is being used quite a lot by commercial air lines.

Right Hon. Mr. HOWE: There is a community of about 4,000 or 5,000 people that has to be served.

Mr. REID: I am wondering if it was incumbent upon T.C.A. to go into the international hotel business and operate a hotel there?

Mr. SYMINGTON: What happened in this case was that it was a pure matter of saving money. For instance, at Gander we all joined in and it is run by Newfoundland. All the air lines contribute so much at Gander. At Goose Bay there was nothing but Canada and the other air lines said to us, "This is a rotten situation here; something has got to be done about it. It is in your territory." That is what the members of IATA, the International Air Transport Association, said to us. The department felt as we had some experience in feeding passengers, and so on, that we should take one of these buildings and be prepared to give meals to a passenger plane when it comes down there. We are guaranteed against any loss by the department.

Mr. REID: It probably should not be chargeable to T.C.A. at all?

Mr. SYMINGTON: It is not a service we are looking for particularly, but in the joint interest somebody had to do it, and as we are guaranteed against any loss in it in the international picture we decided it was up to us.

Mr. REID: Is it a large hotel that was built there?

Right Hon. Mr. HOWE: It is an old building.

Mr. SYMINGTON: Just an old building.

Mr. HAZEN: Who guarantees the loss?

Right Hon. Mr. HOWE: The International Air Transport Association.

Mr. JACKMAN: What was the load factor last year compared with previous years?

Mr. SYMINGTON: 76 against 84.

Mr. NICHOLSON: For several years a flight between Toronto, Sault Ste. Marie, Port Arthur and Winnipeg has been promised. I see it is definitely promised for 1947. Have you any idea when that service will commence?

Mr. SYMINGTON: Again I should like to see everything signed on the dotted line before I make an announcement. I may say I have had an announcement which my people have wanted to make for some time that it would start on July 1st. I am pleased to say I think it will. In these matters of external affairs international negotiations seem to be unending. As you know we had to negotiate for the right to land at Kinross Field, which was an American field on which there seems to have been some dispute between the state and the military and the civil aviation departments in Washington. In addition to that we wanted an emergency field near Houghton in the peninsula of Michigan, and we had to make an agreement with the United States. Agreements have been signed. I am told by Mr. English this morning that at Kinross everything is ready now except a marker which Mr. Howe has promised to rig up for us, and I think an announcement will definitely come that it will start on July 1st.

Mr. NICHOLSON: How about the service between Winnipeg, Saskatoon and Edmonton?

Mr. SYMINGTON: Perhaps Commander Edwards can tell us when the Saskatoon air field will be ready. We have been waiting for that for quite a time. We want to run that one.

Mr. NICHOLSON: Is it proposed to include Yorkton on that service?

Mr. SYMINGTON: No, Yorkton is not on the line now, not to start with, anyway.

Mr. NICHOLSON: And it is proposed to give service to Medicine Hat and Swift Current?

Mr. SYMINGTON: We are going to stop our regular two engine operation at both Swift Current and Medicine Hat starting the 1st of July.

Mr. NICHOLSON: Are Brandon and Portage on that?

Mr. SYMINGTON: Brandon is on it but there has got to be a little lengthening of the field. Then it will be on it.

Mr. NICHOLSON: How about Moose Jaw?

Mr. SYMINGTON: No, it is too close to Regina and Swift Current. You cannot put planes up and down too continuously. You can motor in.

Mr. REID: My question has to do with the Trans-Atlantic service. Do the Trans-Atlantic flights pay?

Mr. SYMINGTON: I will tell you about that a little later at the end of the year. I sincerely hope it will pay. It has not paid on the American lines as yet. As you know we have constructed or helped to construct a plane that we think is better suited for that operation and for the potential traffic than any other.

Mr. REID: Why were the rates reduced?

Mr. SYMINGTON: The rates were reduced because the majority of the air lines wanted them reduced. They said they were too high. This reduction was approved by the various boards of the various countries. Personally I would not have reduced them, but perhaps I am wrong. Perhaps they were

too high to induce traffic but, at any rate, we are members of an organization where the majority took that view and they were accordingly reduced. I may say the operation is going very well. We carry full loads westbound and very good loads eastbound. In fact, we are reserved up to almost the end of the year westbound.

Mr. MAYBANK: What is the percentage eastbound?

Mr. SYMINGTON: It runs this way. Some days there will be a full list, and perhaps the next day there will only be seven or eight. It varies a bit, but it is better than we expected. We have not really gone after it very hard yet, but we are educating the people as fast as we can.

Mr. REID: You are still landing at Prestwick?

Mr. SYMINGTON: Oh yes, we land at Prestwick.

Mr. JACKMAN: Did the reduction of the Trans-Atlantic rates stimulate traffic at all?

Mr. SYMINGTON: It is hard to tell so far as we are concerned because we only had 10 seats in the old planes, and we did not lower the rates until we brought these new planes in. Whether or not it has increased I do not know. Traffic last year from United States points was bad eastbound, particularly following the crashes they had. It is coming up and is surprisingly good now, about the same condition as here. When the weather is good their people seem to want to travel.

Mr. NICHOLSON: When eastbound passengers buy a return ticket what do you do about westbound passengers?

Mr. SYMINGTON: We give them a westbound reservation.

Mr. NICHOLSON: At what period?

Mr. SYMINGTON: They have got to name the time.

Mr. JACKMAN: But you guarantee it?

Mr. SYMINGTON: Yes, we cannot take people over there and leave them there.

Mr. HAZEN: Is T.C.A. operating its own Trans-Atlantic service now?

Mr. SYMINGTON: Now it is.

Mr. HAZEN: When did it start?

Mr. SYMINGTON: We put on the new planes on April 15th. Either that date or May 1st will probably be the starting date, but Trans-Canada Atlantic Limited is now operating the North Atlantic service and not the government.

Mr. EMMERSON: What type of plane?

Mr. SYMINGTON: A plane that is called the DC-4 M-1.

Right Hon. Mr. HOWE: Do not call it that. Call it the North Star.

Mr. SYMINGTON: It is a plane built by Canadair in Canada for the purpose. It is our four engine plane.

Mr. EMMERSON: You are getting sufficient deliveries of that plane?

Mr. SYMINGTON: We have got deliveries of the first type of it. The final plane we will not get until July.

Mr. NICHOLSON: How many of them have you in the Atlantic service?

Mr. SYMINGTON: We have four in the Atlantic service now.

Mr. MAYBANK: North Star is the name of the type that Mr. Howe and others came across Canada in a while ago?

Right Hon. Mr. HOWE: That was the prototype.

Mr. MAYBANK: That was the prototype?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: I had the idea at that time you were aiming at the use of that across country?

Mr. SYMINGTON: We are. One of the things in the planning of it was that it was useful for the North Atlantic and for across Canada to have as far as possible the same equipment. It gives us greater flexibility to keep them in the air longer.

Mr. MAYBANK: You will have North Star in use across Canada?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: No trouble about crossing the mountains with it?

Mr. SYMINGTON: No. That plane will go 25,000 feet on three engines and it will go up to 28,000 on four engines.

Mr. REID: I wonder if the minister would care to say something about the Sea Island airport. I have in mind if that change is made that probably it will cost T.C.A. more if that airport goes back to the city.

Right Hon. Mr. HOWE: No, the rates are fixed. We have gradually worked out a new scale of rates for all airports on which we hope to standardize.

Mr. REID: The government still owns the Sea Island airport under an agreement with the city of Vancouver?

Right Hon. Mr. HOWE: No, the present situation is that the city is operating at our expense which is a very unsatisfactory arrangement to us.

Mr. HAZEN: What did these four DC-4 M-1's cost?

Mr. SYMINGTON: They cost $660,000 apiece.

Mr. HAZEN: If I may revert to the DC-3, I think it was, that disappeared last April on the Pacific coast, what was the value of it?

Mr. SYMINGTON: Which?

Mr. HAZEN: Was it not a DC-3 which disappeared?

Mr. SYMINGTON: That was a Lodestar.

Mr. HAZEN: What value did you place on that machine?

Mr. SYMINGTON: It was depreciated down to nothing, three or four thousand dollars. It was a five year old machine that was depreciated out.

Mr. JACKMAN: How did the load factor of 76 of the T.C.A. compare with transcontinental lines in the United States or comparable lines?

Mr. SYMINGTON: I would think it is a little below, but I am not sure. I have some notes here on that. They have had the same experience. I cannot give you the exact figures. Perhaps I can. The average for United States air lines was 81·7 per cent, and that varied from 73 up to 86. They have had the same experience as we have. Capacity was greatly increased and the load factor did not keep up with the increased capacity. Of course, that is the difference between profit and loss. I gave you the November figure. The year end figure for the United States lines is 78·74.

Mr. JACKMAN: That is for the twelve months?

Mr. SYMINGTON: That is for the twelve months. Here is the kind of thing that goes on. I have here the last issue of *Aviation News* which is a part of the bible. The heading is "Domestic air line traffic gains as operating losses mount, $17,000,000 deficit registered for the first two months of 1947." Although they have carried upwards of 25 per cent more passengers in the first two months of 1947 than in 1946 an unprecedented $17,000,000 operating deficit has been the result. Under their system the post office is supposed to grant mail rates which give them a fair operating profit over all. All lines are making applications to the C.A.B. to increase their mail rates. Mr. Tripp, who is head of the Pan-American, which is considered a very great line, before a committee at Washington on May 5, said that Pan-American will require mail pay of $22,000,000 if it is to maintain its credit position. All air lines are applying for increased mail rates. When you come to look at our results, as I said, they really are not

quite as bad as they look although they are disappointing. We have, at any rate, to some extent saved the country or the government far more than our deficit. In other words, had we not—and I blame myself for it—made the new postal arrangement that we made the post office if they had paid for the miles run would have had to pay us $2,000,000 more last year than they did. However, the agreement was changed because the post office very properly said, "If we have got to pay on mileage we are going to have some say in how many miles you run." We did not think that was the way to run an air line but, as a matter of fact, if we had not made that new agreement the post office would have had to pay us on a mileage basis $2,000,000 more last year than we were actually paid. Then, our insurance fund has grown by $400,000 during the year, and our depreciation is very large, so that by and large taking the operation as a whole, while nobody hated a deficit more than I did—it is the first one —fortunately we had a surplus to meet it. The operation was much better than most air lines I know of in results.

Mr. McCulloch: Do you carry your own insurance?

Mr. Symington: Yes.

Mr. Hazen: If you had got your planes when you expected them and had got these new lines established do you think you would have had a deficit then?

Mr. Symington: I cannot say. That, of course, all depends upon how many people are going to travel. We think they would have travelled but we may be wrong. Travel was interfered with very greatly by the accidents that happened all over the world in the latter months of that year. We think we would have. I do not say we would have filled them all, but I think we certainly would have had a good deal better showing if we had not spent our money making training changes for them, and secondly if we had got the planes.

Mr. Nicholson: If you had carried as much mail as you did in 1944 what difference would that have made even at the new rates?

Mr. Symington: If we had carried as much it would have meant $470,000.

Mr. Reid: If the postal authorities decide to carry the great bulk or all of their mail by air can you take care of it?

Right Hon. Mr. Howe: That decision has not been made yet.

Mr. Symington: Could we take care of it? We think we can, particularly with the four engine aircraft coming in, and we certainly think that with the capacity we have now that we should be handling all the first class air mail that can be advanced by using the air.

Mr. Nicholson: How do you account for the falling off in the use of air mail in 1945 and 1946?

Mr. Symington: I do not know. Some people say that the pick-up and delivery service does not justify sending by air mail. The post office would not agree with that, and I am not getting into any dispute with them, but the fact is that people are not using air mail as much as they did. I do not know why. We advertise, and so on, but they are not using it as much as they did, as you can see from the figures.

Mr. Jackman: How is it working out in the United States as far as air mail?

Mr. Symington: Relatively the same.

Mr. Jackman: They are all down?

Mr. Symington: All down.

Mr. Maybank: Falling off there, too?

Mr. Symington: Falling off there, too, yes.

Mr. Jackman: Their air mail postage rate is less than ours?

Mr. Symington: A cent less. They put it down to 5 and are putting it up to 6 again. When they put it down to 5 it seemed to result in an increase, but

apparently it did not last. At least, the post office people here tell me it did not last.

Mr. NICHOLSON: They had it at 8 cents in the United States. When did they reduce it from 8 cents?

Mr. SYMINGTON: They reduced it to 5 cents last year.

Mr. JACKMAN: You do not feel anything is to be gained by adjusting the postage rate on air mail?

Mr. SYMINGTON: I would not like to say that. In fact, I rather advocated that. In view of what I am informed about the United States perhaps I should not have advocated it, but I should like to have tried it. However, I do feel with the capacity we now have to carry mail and express that we should be carrying a great deal more mail than we are because a balanced load is a great thing in an air line. We have got so many conditions against us in Canada for a balanced load that we have all got to work together to get it.

Mr. MAYBANK: For the benefit of the post office I should like to say that in my experience a great deal of the air mail service from Winnipeg to here and back again over the last year and a half has been very poor. Over and over and over again I am getting letters which have saved very little time by coming by air mail. It may be they were not posted at the right time. Maybe they come in here and lie around after they get here. I do not know, but I often feel that it would be just as well for me to drop a letter in the box to catch the train out of here in the neighbourhood of 10 o'clock, especially if it is to a business firm in Winnipeg where delivery is more frequent than to a residence. I do not know whether there is anything the post office can do about that, or whether that is singular, but I have correspondents writing to me, and I think they are wasting quite a little bit of money on air mail stamps.

Mr. REID: It is strange that the opposite is the case to the Pacific coast.

Mr. MAYBANK: I should think that would be the case there.

Mr. REID: It is not unusual to post a letter on Monday morning and have a reply by Wednesday evening. I consider that very good service.

Mr. JACKMAN: May I ask how the rate paid by the post office to T.C.A. compares for similar distances in the United States?

Mr. SYMINGTON: You have asked that question each year.

Mr. JACKMAN: Things change so much that I want to be brought up to date.

Mr. SYMINGTON: It is very difficult to give an answer because some lines are considerably below us and other lines are considerably above us. When they do things over there they certainly do them properly, because they have been granted mail increases retroactive amounting to several millions of dollars in the United States in the last few months. For instance, C. and S. got 95 cents an airplane mile which is three times more than we get. That is Chicago and Southern. Pan-American have asked for $11,629,370 back pay in air mail rates.

Mr. JACKMAN: Is there any uniform measure, plane miles flown per hundred pounds, or what is the unit they are using now?

Mr. SYMINGTON: Some are given mileage and some are given pound miles. They treat each one in accordance with its necessities.

Mr. JACKMAN: You cannot make a comparison?

Mr. SYMINGTON: You just cannot make a comparison, but I will say that as to the great transcontinental lines they do carry mail cheaper than we do.

Mr. JACKMAN: That is on a basis of plane miles flown?

Mr. SYMINGTON: They carry mail cheaper than we do no matter what the basis is.

Mr. JACKMAN: What is their unit?

Mr. SYMINGTON: They carry on the same basis we do, a pound mile basis, except they have a minimum.

Mr. NICHOLSON: I notice in connection with the Trans-Atlantic service no scheduled flights were cancelled during the year. That would appear to be a very good record. How long have you been able to maintain that sort of record?

Mr. SYMINGTON: That was quite an extraordinary service, speaking of 1946. Mind you, they did not all arrive on time, but they were not cancelled. It was a very flexible service whether we went by Iceland or by the Azores or whether we came straight across. That plane, as opposed to most of the planes, has very great altitude performance, just as our new plane has. It was able to get over trouble. It was an expensive plane to fly, of course, being a military plane, but its performance was really remarkable. In fact, it was the performance of that particular engine that attracted our attention to what eventually evolved into the North Star.

Mr. REID: Having travelled over the route more by land than by air, is it only 281 miles from Regina to Vancouver?

Mr. MAYBANK: Where did you get that?

Mr. REID: That is on page 8.

Mr. MAYBANK: Maybe that is Regina, British Columbia.

Right Hon. Mr. HOWE: That is the extra mileage beyond Calgary.

Mr. SYMINGTON: The ordinary run is from Regina and Lethbridge, and we put in one from Calgary. It is badly expressed but I think that is the distance—

Mr. EDWARDS: It is the extra distance added.

Mr. SYMINGTON: Added on going by Calgary.

Mr. REID: I notice that the interest on the capital invested was $230,000 in 1945 and nothing in 1946.

Mr. SYMINGTON: I will explain that to you. It does look rather funny. It was a rather funny operation. Under the original T.C.A. Act we had a guaranteed mail rate, and there was a clause which said that the interest on the money which the railroad advanced to the air lines was to be paid as an operating expense. In the changing of the Act the guarantee went out. The C.N.R. was the only shareholder, and that clause with respect to making interest payable as an operating expense went out. The only way we could pay that interest was by declaring a dividend. That advanced us no money. It is purely a stock holding, so we had to pay them their interest by way of a dividend. We declared a dividend of $158,000 which was the actual interest on the money they had in stock.

Mr. JACKMAN: You are not afraid of going to jail for declaring that dividend on last year's results?

Mr. SYMINGTON: I do not think so. We had an earned surplus.

Mr. REID: I see that you say in your report that passengers carried increased by 67 per cent. Why would the percentage of passenger occupancy drop down?

Mr. SYMINGTON: Because we had more than twice the seats. We put on these larger planes and there were more frequencies.

Mr. EMMERSON: If the percentage of occupancy had remained at 83 instead of dropping down to 76 what would have been the financial results?

Mr. SYMINGTON: Oh, we would have made money. It is the top layer that counts.

Mr. JACKMAN: As to that dividend why did you want to pay that dividend when your working capital position is so adverse?

Mr. SYMINGTON: I do not see any reason why the Canadian National Railways should furnish us money for nothing. It was a perfectly proper and legal thing to do so I did it. Whether or not we have got to get the Act changed I

do not know, but I do not think I want to present a statement to you or the country of the operations of this line if it is tied to a sacrifice by the Canadian National Railways financially because to my mind it would not be frank statement. I have told you we paid the railway interest upon the money that they have in this line at the rate which it cost them, and therefore they are not the loser, and it was to provide a better statement.

Mr. JACKMAN: With current assets at $4,365,000-odd and current liabilities at $5,475,000-odd, it is a little hard to understand, judging by what private business would have done, why you paid money out to your shareholders.

Mr. SYMINGTON: The current liabilities are largely accounts payable on capital account. At any rate, I did it, Mr. Jackman, and I think it was the right thing to do; and if you find me a surplus next year, of course, we can do it again.

Mr. MAYBANK: And about this criminal charge which has been suggested, I suppose you can defend yourself on that?

Mr. JACKMAN: I did not say there was a criminal charge.

Mr. SYMINGTON: If you have an earned surplus you can pay a dividend. It may not be wise; but I agree—

Mr. JACKMAN: I would think it would be unwise to pay it out. In fact, must you not balance your current assets against your current liabilities calling for a further subscription on capital stock?

Mr. SYMINGTON: Absolutely.

Mr. JACKMAN: I do not want to interject politics into this, but it seems to me that you are paying out a dividend which sound ordinary business prudence, in my humble judgment, would indicate you should not have done, and then you would have turned around, on the other hand, and asked for an appropriation to put in more money on capital account.

Mr. SYMINGTON: Yes. It is not for the purpose of paying dividends, but for capital account.

Mr. JACKMAN: You would have to ask for much less money.

Mr. SYMINGTON: No, I would not have done that.

Mr. JACKMAN: If you had been running this as an ordinary business concern, without the public coming into it, or the government, would you have paid the dividend?

Mr. SYMINGTON: I might have; but naturally what I would have done was not use all my money to buy capital equipment; I would have borrowed money at the bank.

Mr. JACKMAN: Then you certainly would not have paid a dividend because the bank would not have let you have the money.

Mr. SYMINGTON: I would have paid interest upon the money invested. This change took place in the middle of the year and the Canadian National Railways had put up $5,000,000-odd or whatever it was, and they got interest at 3 per cent on that money from Trans-Canada Air Lines.

Mr. REID: Have you any intention of going into the Pacific with air flights?

Mr. SYMINGTON: You mean to Australia?

Mr. REID: Yes.

Mr. SYMINGTON: Yes, it is going on. It all depends upon when we get our new planes. As far as I know the idea of running parallel operations with Australia will be carried out. That is as far as I know as an operator; I do not know about the policy. I have no reason to doubt that.

Mr. MAYBANK: I was wondering whether we might be able to complete this morning rather than to go on with another meeting. We have gone over this

statement about as fully as we can, and I would like to move the adoption of the report.

Mr. JACKMAN: It is a litttle early, Mr. Maybank. The total miles flown last year increased 39 per cent, yet your operating revenues increased 22 per cent. You have given us an explanation, but how does one explain these figures? Your mileage flown increased 39 per cent over the previous year.

Mr. SYMINGTON: I will give you the answer. Our revenues, except mail, increased 44 per cent. It is all in the loss of mail revenue.

Mr. JACKMAN: You really cannot complain about the mail contract; the relations between the Post Office and the T.C.A. have not been unfair to you in any way?

Mr. SYMINGTON: I do not care to comment, but if you think we have been geeting any of the best of it, get that out of your head, because they are tough dealers. Certainly there is no air line that I know that has to deal as hard as we have in this respect. I had the president of the Central African Railways in to see me the other day and we started to discuss air mail rates—there are three South Africans over here just now—and why, goodness gracious me, they get paid by the Post Office rates that would make my mouth water. We do not approach them and they think that their Post Office makes money out of the arrangement, and they only have two-cent postage. When you see, according to their own statement, that Pan American have to have $22,000,000 a year for mail to maintain their present position; when you see all the applications that are being made; when you see as I see here in English Hansard where they have had a subsidy of £10,000,000 and on February 15 for a month and a half they had to pay a supplementary subsidy of £810,000 for the B.O.A.C.—compare figures like that with what we are doing here and with the amount of money it costs us, good gracious this line, as I see it, has saved this country millions of dollars. You will find Mr. Tripp, in arguing for his international line in the United States last week, telling the United States government that if they did not do that they would have to pay $100,000,000 in subsidies. Now, we have not cost the government of Canada one cent up to date. I do not say that that will continue, but we have not cost this government one cent in the operation of this line for seven years.

Mr. JACKMAN: May I ask a general question? What does the T.C.A. do, if anything, to help the small feeder lines? Is anything done to encourage them, or are they of any use to you?

Mr. SYMINGTON: I say that they all get our advice wherever we can give it. Certainly, our relations with them are excellent. We are the people they come to for advice.

Mr. JACKMAN: Do you have any definite policy in regard to some of these independently operated small lines?

Mr. SYMINGTON: Nothing except to encourage and help them all we can.

Mr. JACKMAN: What do you do?

Mr. SYMINGTON: Well, we give them advice—the most valuable thing we can give. We tell them how to organize a line and which are the best aircraft places.

Mr. JACKMAN: You definitely go out of your way to encourage them, do you?

Mr. SYMINGTON: Absolutely, yes.

Mr. NICHOLSON: On the basis of your operations for the first four months of 1947 what would be your position at the end of the year? Is that position forecast?

Mr. SYMINGTON: I cannot forecast it. There has been a loss in the first three months which is levelling out now. I think we can make it up, but I do not know. It depends upon whether the public fill our planes.

Mr. NICHOLSON: I thought you were rather pessimistic.

Mr. SYMINGTON: The experience of the past year and what is going on in other parts of the world makes us most careful about making statements about what will happen in the future.

Mr. HAZEN: I am sorry. I did not hear Mr. Nicholson's question. In the report of the directors of 1945 you said that until patronage on this new service was built up over the next few years the company will experience a difficult financial period.

Mr. SYMINGTON: Quite so.

Mr. HAZEN: Your report shows that you have had a difficult time this year—a large deficit.

Mr. SYMINGTON: Yes.

Mr. HAZEN: Now, looking ahead for next year, are you in a position to make any statement? The C.N.R. always submit a budget for the coming year's operations. The T.C.A. has never submitted a budget.

Mr. SYMINGTON: No. We show our capital expenditures, but I cannot prophesy. I think this year will also probably be a tough year, I do not know. We will wait and see. We have lots of capacity to be filled. If we fill it we are all right. Until we do we are going to have a difficult financial time.

Mr. HAZEN: In view of your experience this year do you propose to make any changes in your plans?

Mr. SYMINGTON: No, our plans are pretty largely completed. There are still things to be decided, of course, in connection with four engine operation, but we have got enough equipment. We want to keep them in the air. We will keep them in the air as long as we can get the people to give us the load factor, and if we can get, as we are pressing very hard to get, mail and air express. I think that will grow as we have more equipment. I think people will travel more when they know there are seats, but I would not like to prophesy at all what will be the financial results this year.

Mr. HAZEN: On page 6 of your report you say that more ticket offices were provided.

Mr. SYMINGTON: Yes.

Mr. HAZEN: Whereabouts were they?

Mr. SYMINGTON: They were provided for all the new lines we opened. There was Chicago, Cleveland, Victoria, Seattle. Since then we have opened up in Boston on April 1 of this year. We opened up in Duluth. We opened up in Port Arthur. We had to open ticket offices in all those places.

Mr. JACKMAN: Do you run those ticket offices in the United States along with the C.N.R. ticket offices?

Mr. SYMINGTON: No. We did in New York, but they sold the building, and now we have our own offices.

Mr. JACKMAN: Just how does T.C.A. in the United States keep clear of the refusal of the United States government to allow railways to operate aircraft companies? Do I make that plain?

Mr. SYMINGTON: Yes. They look on it that the government is operating it. I suppose that is the answer.

Right Hon. Mr. HOWE: The answer is that by agreement between the United States and Canada Canadian operations in the United States come under Canadian law and American operations in Canada come under United States law. That is part of the international agreement on aviation.

Mr. JACKMAN: There is no difficulty, anyway.

Right Hon. Mr. HOWE: No.

Mr. JACKMAN: You are renting air force hangars at Edmonton and Toronto. May I ask what the cost of those is?

Right Hon. Mr. HOWE: There is a regular scale of hangar charges. I might say the Department of Transport have been stepping up their revenue from their airports. They put in a standard scale of hangar charges and standard scales of landing fees recently which all air lines pay.

Mr. JACKMAN: You are the sole users of those hangers at Edmonton and Toronto?

Right Hon. Mr. HOWE: Certain hangars, but generally speaking hangars are a public facility people pay for by a standard scale of fees.

Mr. JACKMAN: Is there a rental fee? I might also point out that in Montreal T.C.A. acquired two large hangars previously used by the R.A.F. Transport Command. That service is not operating now at all?

Mr. SYMINGTON: No.

Mr. JACKMAN: It was not taken over by B.O.A.C.?

Mr. SYMINGTON: They were built by Canada for the R.A.F.T.C. to use them. They were always the property of the Canadian government, all hangars at Dorval.

Mr. JACKMAN: Whom did you pay, the Department of Transport?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: May I ask how much that was?

Mr. ENGLISH: We bought them from War Assets.

Mr. SYMINGTON: I can let you have that figure. We bought them from War Assets.

The CHAIRMAN: Are there any other questions?

Mr. HAZEN: Yes, I would like to ask one or two more questions, but it is 1 o'clock.

The CHAIRMAN: If the committee is agreeable we will come back at 4 o'clock.

The committee adjourned to meet again this afternoon at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: When we adjourned at 1 o'clock I think Mr. Hazen was ready to ask some questions.

Mr. HAZEN: On page 10 of the report near the foot of the page it says:

"Service between Halifax, Saint John and Boston will begin in April, with a stop at Yarmouth."

Mr. SYMINGTON: Yes.

Mr. HAZEN: Was that service inaugurated?

Mr. SYMINGTON: Yes, it started the first of April.

Mr. HAZEN: Is it daily or weekly?

Mr. SYMINGTON: It is daily, two flights a day, and it also goes to Penfield. It stops at Yarmouth now.

Mr. HAZEN: Does it go from Boston to Halifax and then to Saint John or Boston, Yarmouth, Halifax and Saint John?

Mr. SYMINGTON: Boston, Penfield, Yarmouth, Halifax.

Mr. HAZEN: Does it return the same way?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Halifax, Yarmouth, Penfield and Boston?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: As to this proposed Bermuda line, will that be seasonal?

Mr. SYMINGTON: It will have to be continuous, but there will be more frequencies according to the season. Of course, it largely depends on the extensions to the other islands south. I would expect that route will run more flights to Bermuda, a lesser number down through the West Indies, and a still lesser number perhaps on to Brazil if we go there.

Mr. JACKMAN: When you take on a schedule like that do you have to undertake with an international board that you will maintain a certain schedule?

Mr. SYMINGTON: No, all we have to undertake is to maintain a schedule that will carry the people.

Mr. JACKMAN: The traffic offering?

Mr. SYMINGTON: The traffic offering, and that is with Bermuda. It is not with anybody else. It is all between Bermuda and ourselves as far as that is concerned.

Right Hon. Mr. HOWE: There is one thing we have to face in these routes. The Montreal London service will probably pay its way, but when you get far afield carrying the flag down to South America and out to Australia you have got to face a subsidized operation there, at least in the early stages.

Mr. JACKMAN: Which flag is this?

Right Hon. Mr. HOWE: The flag of Canada.

Mr. JACKMAN: Since the committee rose I had a discussion with one of the members from British Columbia. While I am not one to raise the question of lowering rates when the line is not paying he informs me that on fruits and flowers, especially the early season fruits, the rate on the T.C.A. from the west to the east is, to use his words, about three times the comparable rate in the United States. Have you had any experience along those lines?

Mr. SYMINGTON: No, I do not think we have carried any fruit. We have carried lots of flowers at Easter, Mothers' Day and that sort of thing. We are at the very start of our freight business. We are feeling around to see what is available. We are discussing it with the various merchants' associations, retailers, wholesalers, and so on, trying to lay out plans which are based, of course, upon the capacity of the planes to carry the stuff. That depends on the amount of mail and express we get, and then the cheaper commodity or freight. The rates have not been finally fixed. We have not any set organization. We are simply in the first stages of the development of that business which we hope will be quite material. When you compare United States rates they are, of course, in a terrible state. They are absolutely ruining themselves because they have allowed non-scheduled organizations without number to fly cargo freight, and so on. One by one they are all losing the $100,000 they put into that. They are just going down that way, and ultimately the regular lines are going to do the business. In my discussions with them down there they said they had got into such a mess they had decided they would let nature take its course, and if people wanted to lose their money they would have to let them lose it. Of course, you are always up against charter operations, uncontrolled, unscheduled operations because the standards of them, the care of them, the requirements and the regulations are much less stringent than they are on the scheduled commercial air lines. Their rates are by guess and by God. One man will come along and say, "I will take this plane load of strawberries for you for $500." Probably it is worth $3,000. That is the way business is being done over there just now. We do not get into that, thank goodness.

Mr. JACKMAN: Of course, we do not allow independent operators to run on the main lines and carry cargo?

Mr. SYMINGTON: Which?

Mr. JACKMAN: We do not allow independent operators even if there are cargoes.

Mr. SYMINGTON: Not on the line from Toronto to Chicago because for all purposes that has been given to T.C.A. under agreement, and nobody else.

Mr. JACKMAN: Let us say from Ottawa, Toronto or Montreal to Vancouver. An independent man cannot operate a cargo plane, can he?

Mr. SYMINGTON: No, not without getting special permission from the transport board. Of course, the facts are that there has not as yet been in Canada any such thing as a full cargo offering except for some lobsters which they tried to send to Boston—which we are dealing with now—and on which the claims exceeded the freight. They have got to be alive, and whether they were delivered dead or arrived dead it was not a very satisfactory operation. The other is blueberries which is just a two or three week operation. As to across Canada there never has been cargo freight that I know of, and I really do not know where it would come from. I do not think that is the answer. I think the answer is a balanced load of a certain amount of freight which is surplus tonnage, and therefore entitled to a lower rate after you take care of your passengers, mail and express.

Mr. HAZEN: Did you say you had carried lobsters to Boston?

Mr. SYMINGTON: We did not. We are studying it very hard now with them down there, but a Boston firm did go up and do it last year and they suffered very severely. They claimed, of course, that the lobsters were dead when they were given to them, but the shipper claims they were killed between there and Boston. Apparently they sell lobsters for acceptance on delivery. They got down there and if one of them was dead, even though he had been dead only a minute, that was out. The claims were very severe.

Mr. JACKMAN: I had a complaint from a man who said he was deplaned at Lethbridge, I think it was, for a cargo of Easter lilies.

Mr. SYMINGTON: I know the gentleman to whom you refer very well.

Mr. JACKMAN: He told me he had spoken to you.

Mr. SYMINGTON: His main object in life is to send me telegrams in the middle of the night to get me out of bed to say he is at some airport or something else. He seems to think that goes with running an air line. I wrote him a full explanation which was quite satisfactory to me.

Mr. JACKMAN: Is it the policy of the line to deplane people for express shipments?

Mr. SYMINGTON: No, it is not the policy of the line to deplane people for shipments, but it is the policy of the line to do business in the most economical and best way to make money and not have deficits. What happened was that last year when we put on an extra flight no flowers appeared. This year a great many flowers appeared. However, that was all right. We could take care of them. When we got to Lethbridge the clouds had fallen at Regina and we could not stop. The result was that it had to be decided whether we would deplane 800 or 900 or 1,000 boxes of flowers which would all perish and make us subject to very severe damages or would we ask four passengers to wait three hours for the next plane. Our men there decided to ask the passengers to wait. The gentleman to whom you refer is pretty hot-headed and impetuous. He decided not to wait and took the train to Calgary and got home three or four days late. The other people followed the advice and got the next plane and got home on time or not very much behind time. The funny thing about

the operation of this line—I suppose it arises out of the dispute between public and private ownership but that should not interfere with the ordinary operation of a line—is that some people seem to think it gives them the privilege of badgering me all night because I happen to be the head of a public line. I do not see it that way. It is very annoying to have people call me up that they are deplaned at Ottawa, we will say. They will say, "All they will give me is a lower in Toronto. What are you going to do about it? Put on an extra car." This is five minutes before the train leaves. I have got out of bed to do that sort of thing. It is very annoying and very inconsiderate, and one of the gentlemen who likes to do that is your friend.

Mr. Jackman: I am not so sure from your description it is the same man.

Mr. Symington: I think it is.

Mr. Jackman: Perhaps you might tell us why the C.P.R. air line seems to have done fairly well last year. I understand they changed a loss into a profit.

Mr. Symington: I will tell you quite readily why they did it, and very creditably too. They decided they would not run too many scheduled commercial air lines. On what few they kept they lost money. They made that money by charter. There was a large development in Labrador, a large development in the northwest territories, a big contract for mapping, and they have done a good job.

Right Hon. Mr. Howe: There was a little more to it than that. They got rid of the lines that required the operation of floats which are more economically done by smaller operators and confined themselves to three types of airplanes, all on wheels. There was a reorganization of the operation. It was made much more efficient, and today they have an operation that can be operated profitably.

Mr. Jackman: It is quite remarkable that in a year they could change a loss of $308,000 to a profit of $372,000 when their operating ratio is 95·3 per cent. It is a pretty slim margin. It is much higher than your cost.

Mr. Symington: The trouble with the high grade commercial air lines is that people have been spoiled. They want too much attention. On these planes that are going north you may be sitting next to a cow or anything else. It is all good business. It is the way it should be run. That is the kind of business they are running and running it very well, too.

Mr. Jackman: It seems to be quite sizeable, 6,813,000 miles in revenue service in 1946 as against your 12,400,000 miles?

Mr. Symington: Those are long trips from here to Labrador and up in the northwest territories.

Mr. Mutch: Perhaps we could send them a letter of congratulations and get on with this.

Mr. Jackman: Pardon? I did not hear your question.

Mr. Mutch: I did not ask a question. Perhaps we should write and congratulate them and get on with our own work.

Mr. Jackman: I was wondering whether or not they were extraordinarily capable operators.

Mr. Symington: They came in and looked over our show when they were reorganizing and spent some weeks there. I will say that to you.

Mr. Jackman: You would think you would not have a monopoly on all the ideas. May I ask, Mr. Symington, about the overseas service which you operate for the government. I presume if you have a profit you pay it over and if you have a deficit you are paid sufficient to balance the accounts.

Mr. Symington: The original agreement was different from that. The profits were split. That will be wound up shortly now. We were operating as agents for the government, yes.

Mr. JACKMAN: What is the policy at the present time?

Mr. SYMINGTON: Of course, the policy at the present time is that T.C.A. has taken it over as an operation. I shall ask the minister to guarantee the deficit on it, or the government, because I cannot see why they should not. I think they should on all these international routes. I cannot see any way out.

Mr. JACKMAN: It will be a straight T.C.A. operation?

Mr. SYMINGTON: A straight T.C.A. operation, not a government operation any more.

Mr. JACKMAN: That is as of a certain date shortly?

Mr. SYMINGTON: That is as of a certain date to be agreed upon in this agreement which is drafted now.

Right Hon. Mr. HOWE: It is either the first of April or the 15th of April.

Mr. SYMINGTON: I should think later than that.

Right Hon. Mr. HOWE: The first of May. We are just winding up the old operation now. We are in the process of winding it up.

Mr. JACKMAN: You started out with a split of the profits on some agreed upon basis?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: What have you done last year?

Mr. SYMINGTON: The accounts are now being taken.

Right Hon. Mr. HOWE: They have operated in the black. In fact, exclusive of depreciation of the airplanes they have operated quite substantially in black ink.

Mr. JACKMAN: There was a 33 per cent depreciation rate.

Mr. SYMINGTON: These were war planes. They were not worth anything to all intents and purposes. They were war planes and the war was ended.

Right Hon. Mr. HOWE: We took whatever rate people wanted to pay pretty well. In the early days we carried mail, whether it was air mail or first class mail, for the value of the stamps. We did not have any rate with the post office particularly.

Mr. SYMINGTON: We did not carry passengers for part of that time.

Right Hon. Mr. HOWE: Only official passengers, and they were carried free. However, it was a very good operation.

Mr. JACKMAN: How long has it been on a commercial basis taking passengers at the regular rates?

Mr. SYMINGTON: I forget the date.

Mr. JACKMAN: What I want to know is does it make money or lose money at the present time?

Right Hon. Mr. HOWE: It makes money on straight operating, but if you charge depreciation for the airplanes it loses money. It has lost money. We are talking in the past tense because it is not operating any more.

Mr. JACKMAN: Is it not operating with North Stars now?

Mr. SYMINGTON: Nothing but North Stars now.

Right Hon. Mr. HOWE: It is operating as a Trans-Canada Air Lines operation.

Mr. JACKMAN: It is not suggested the North Stars do not cost money?

Mr. SYMINGTON: Any plane will cost money unless you get people to travel on it. The whole question of international travel is dependent on the potential traffic from a country the size of Canada. That is the whole question. All an air line can do is to get the most satisfactory and cheapest operating plane they can and try to get people to travel in it. If there is enough potential traffic that

air line will pay. If there is not it will not pay, and as far as I can gather nobody can tell. I am much more doubtful about it than some people because I do not think that the great mass of our people are air travellers. We have a large agricultural population. The people who travel are manufacturers large and small, and certain people who want to visit who have a certain amount of money. The reason for the very high potential traffic in the United States is the thousands of medium and small size manufacturing plants there are in that country, the officers of whom all travel by air. We are not in that position. Let us say we run—and I say we must run—a trip a day, and probably more. That is every day in the year. You cannot operate one day and not operate the next day. If you multiply a plane with the potential capacity of 40 by 365 days in a year that is over 12,000 people. Whether there are 12,000 people in Canada who will travel to the old country by air is something only the future can tell.

Mr. JACKMAN: Recent experience is it is paying its way except for depreciation?

Mr. SYMINGTON: Oh no, do not go away with that idea.

Right Hon. Mr. HOWE: If you take planes off a war scrap heap and run them to perform a national service you do not worry very much whether they pay depreciation on the planes. We have several thousands of those planes around Canada today that we would sell very cheaply.

Mr. JACKMAN: What I am trying to get at is whether or not it is advisable from a commercial point of view for the government to go into the overseas transport business.

Right Hon. Mr. HOWE: We can tell you better a year hence, and each year after that.

Mr. SYMINGTON: We run them if we are told to run them. I have made it perfectly clear in this committee in other years that I thought that certainly the Pacific route will require a subsidy. I am sure the South American route will.

Mr. JACKMAN: Will pay?

Mr. SYMINGTON: No, will require subsidies, I am sure.

Mr. HAZEN: Before you would start to run a service to South America or a Pacific service would you get instructions from the dominion government to do it, or do the directors of T.C.A. decide on that themselves? Where does the power to do that rest?

Mr. SYMINGTON: The government will say to us that they have made an agreement with Australia whereby we are going to run a service to Australia under agreement with the Australian government. Their reasons may be trade, commonwealth, flag or anything you like. They say to us, "We want you to run it." We say, "All right, we will run it." From then on we run it, not the government. Do not make any mistake about that. We run it, but that is the relationship. Of course, policy matters as to routes of that kind are settled by the government.

Mr. HAZEN: As I understand it before you run a trans-ocean service you get instructions from the government to run it?

Mr. SYMINGTON: Yes, we certainly have consultations.

Right Hon. Mr. HOWE: Before you run any service.

Mr. SYMINGTON: Yes, we have to have them approved by order in council, even the domestic ones, but we recommend those, of course.

Mr. JACKMAN: I wonder if the picture could be made more clear as to your experience on the trans-Atlantic service. I thought the minister said that in recent months at least the service was paying for itself if we did not have to take into consideration depreciation at the present time, that it was very much better at the present time.

Mr. SYMINGTON: That is the big question. We could make a lot of money if it was not for the fact that we have to allow depreciation. We took over a lot of war planes and we spent a lot of money on them making them over so the engines wouldn't stop. They were built to go over and drop bombs and come back and then they would not be up again for three or four days. You had to do a considerable amount of work to turn them into dray horses who can run every day across the ocean, a three thousand mile hop. It required a great deal of work and a great deal of maintenance. And it only carried ten passengers, which is very different from carrying thirty or forty passengers. It only had ten seats. You have seen them. They were built for the dropping of bombs and did not lend themselves to carrying any more than ten passengers; they took over the mail as well. They used to carry mail over there during the war and they took over all the official people. But it could only take ten people every hop. It had a really very marvellous record.

Mr. JACKMAN: What I am trying to get at, and perhaps you could help me in my questions, is whether or not you had a regular commercial service, whether or not this service could operate without too great a loss or perhaps some profit, if you had planes on that run, the North Star type let us say; that is a typical commercial plane with a reasonable seating capacity?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: How long have you been operating that service?

Mr. SYMINGTON: For two weeks. We have four of them on now and we are running seven services a week with them.

Mr. JACKMAN: So that service is really of no value.

Mr. SYMINGTON: Not very much yet. The value is that the mechanical and operational plan has been successful. There are not very many companies that undertake with four planes to run seven trips a week across a stretch of the most difficult piece of air operation in the world and maintain schedule, and that is what we are doing at the moment.

Mr. NICHOLSON: And did you say that you had accommodation for forty passengers each way on those planes?

Mr. SYMINGTON: We don't actually carry forty passengers on the westbound trip because you have to fly against a 33-mile gale on the westbound trip and there is no plane able to do that carrying its full quota against a continuing adverse wind. We will probably take from 28 to 30 passengers going west, with the mail and so on.

Mr. NICHOLSON: What percentage of the trans-Atlantic passenger traffic are you handling; do you or your officials know?

Mr. SYMINGTON: We have most of it to Canada. I cannot give you the figures between the United States and Europe because they have a great many planes and a great many frequencies and a tremendous amount of travel proportionately, population-wise, to the numbers that we have.

Mr. NICHOLSON: How many trips are the American lines flying, do you know?

Mr. SYMINGTON: The American lines must be flying I think forty trips a week.

Right Hon. Mr. HOWE: More than that, I think.

Mr. SYMINGTON: More than that. I have not seen the figures lately, but we have the Scandinavian air lines, the K.L.M.—that is the Dutch line, which is the best prewar line—and then there is Air France; and I am told they are all losing money. I have the figures here. The passengers from New York for the year 1946—early in the year the frequencies were not so many—were 48,000 out of New York and 56,000 from the continent.

Mr. JACKMAN: What other lines come to Canada?

Mr. Symington: B.O.A.C. is the only other one at the moment.

Mr. Jackman: How do you go, by way of Newfoundland, or Labrador, or straight across?

Mr. Symington: It all depends on the weather. The ordinary route may be over Goose or Gander, Prestwick, London.

Mr. Nicholson: How many flights a week are B.O.A.C. flying?

Mr. Symington: One a week now.

Mr. Nicholson: How many passengers do they carry?

Mr. Symington: They carry about, I don't know how many. They only started a week or two ago. Their capacity is about the same as ours. They have a bigger plane, more seats, but westbound they are not going to carry any more than we are.

Mr. Jackman: How much do they charge for these planes?

Mr. Symington: $660,000.

Mr. Jackman: And the DC-3's cost you, what was it, $120,000?

Mr. Symington: We may add some final stuff ourselves, but that is comparable to the price of any other factory for that plane.

Mr. Jackman: And on these reconversions how much did you have to pay Canadair for them?

Mr. Symington: They varied. The first three planes they did cost us $130,000, perhaps a little more.

Mr. Jackman: Each?

Mr. Symington: Each. Then the next one cost us about $120,000—that is a round figure.

Mr. Jackman: How long have you been taking planes from Canadair; did you start last year?

Mr. Symington: The first three DC-3's we got the year before, I think.

Mr. Hazen: I thought you said the DC-3's cost you $150,000?

Mr. Symington: That includes all our ultimate fittings and that sort of thing.

Mr. Jackman: I wonder if you could let us know just how much T.C.A. has paid Canadair and for what; is that figure available?

Mr. Symington: I cannot give it to from the figures I have here. We have not paid them nearly as much as we owe them because of the question of price, and that was not fixed until quite recently. I can get you those figures without any difficulty.

Mr. Nicholson: How many North Stars are you taking, did you say?

Mr. Symington: Twenty.

Mr. Jackman: You said the price was fixed only recently; I suppose there were certain terms of contract on which you would buy. Have you ironed out all the details?

Mr. Symington: We did not iron out all the details. Nobody could give us a price.

Right Hon. Mr. Howe: The operation was carried on government account until we could determine the price. When we could determine the price, we did.

Mr. Jackman: It was done on government account and then they determined the price and T.C.A. did what they were told?

Mr. Symington: No. I never went through any longer or more difficult negotiations than I had with them. I wanted them to continue. It was not a pleasant negotiation, but that is what they eventually arrived at.

Mr. Jackman: Well, I suppose I should not ask you, Mr. Symington, whether you paid the full cost or not. We can get that elsewhere.

Right Hon. Mr. Howe: If they didn't pay the full cost, who did?

Mr. Jackman: Who did?

Right Hon. Mr. Howe: Yes.

Mr. Jackman: I don't know; I am asking the question.

Right Hon. Mr. Howe: They paid the full cost.

Mr. Symington: I objected very strongly to their first price. They asked me a great deal more than that when they started. Don't think it was easy at all. It was a thoroughly tough negotiation, one which lasted two or three weeks.

Right Hon. Mr. Howe: They got the planes considerably cheaper than they could have got them anywhere else.

Mr. Jackman: Which ones, the North Stars or the DC-3's?

Right Hon. Mr. Howe: The North Stars.

Mr. Symington: The DC-3 is a standard article and we paid a little more than some other people paid because our specifications and requirements were stiffer.

Right Hon. Mr. Howe: You could not get a new DC-3 at twice the price.

Mr. Symington: Of course, there have been no more of them built. I don't think you could. But they continually reported, when I asked the price, that our specifications and requirements were stiffer than any other specifications they had, and they reconverted those planes for nearly all the companies in the world.

Mr. Jackman: That cost of $130,000 for the DC-3's, that would be the complete cost except for the alterations you made yourselves after delivery which amounted to about $20,000 a plane. You didn't purchase those as war assets surplus from either the Canadian or the United States government, you paid $130,000 and got the planes?

Mr. Symington: No. We agreed with them when we made deals for these planes which the United States were putting up for sale and we instructed them to go and buy the planes and the number of planes. Our people were to try to select the best we could, and told them where they were to fly them up here and they completed them. That is what was done.

Mr. Pouliot: Mr. Symington, I would like to ask you this.

Mr. Symington: Pardon me, Mr. Pouliot; sometimes this is a very bad room to hear in. I am old and no doubt getting a little deaf.

Mr. Pouliot: I do not want you to repeat what has been said before, but will you please tell me when you expect to complete the extension of that air line which is to operate between Montreal, St. Jean, Quebec, Riviere du Loup, Mont Joli and points on the lower St. Lawrence?

Mr. Symington: I am afraid I will have to refer you to the department, Mr. Pouliot. I am ready and prepared to run it when they give me some fields to run it on. We are very anxious to get the fields down in that part of the country completed; I am, particularly, perhaps for, shall I say, personal or sentimental reasons. But the fields are not completed yet.

Mr. Pouliot: No, but have you any idea when it will be done?

Mr. Symington: I haven't any idea, no.

Mr. Pouliot: But it is a definite plan with T.C.A.?

Mr. Symington: Oh, yes. We have submitted the plans and had them approved by order in council so it is a set route.

Mr. Pouliot: And the purpose of the route, I understand, is to give a chance to the older settled part of the country to have the same transportation facilities as the newer centres?

Mr. SYMINGTON: There may be something in that, Mr. Pouliot. But to be honest, and from a practical point of view I consider the population to be served on that combined route through these combined centres offers a chance to be able to run a useful air line giving service with the prospect of breaking even or of making some money, and I think it can do that.

Mr. POULIOT: How many air fields have been built by the Department of Transport?

Mr. SYMINGTON: For the T.C.A.?

Mr. POULIOT: Yes.

Mr. SYMINGTON: I do not know that they have built any particularly for the T.C.A.

Mr. POULIOT: Some airports have been built and they are used afterwards by the T.C.A.

Mr. SYMINGTON: Oh yes, all over Canada. We use the airports that are built.

Mr. POULIOT: But you have nothing to do with the building of the airports?

Mr. SYMINGTON: No.

Mr. POULIOT: You just use them?

Mr. SYMINGTON: Just use and pay for their use. We pay landing fees and so on for the use of airports which the government build.

Mr. POULIOT: I should ask Mr. Howe what are the special aids given to municipal airports?

Right Hon. Mr. HOWE: We have no policy for assisting municipal airports, Mr. Pouliot. As you know, at the moment the level of employment is very high in the country and we do not encourage work on airports at such a time. We think they can be deferred until employment means more to the country than it does at the present time. However, we are building airports required for the C.P.R. and main line transport. The trouble is that we have more work than we can do in the season with the money we have at our disposal. This year we have had to expand our runways to take bigger planes. We have had to enlarge our airports to accommodate transatlantic services, and we have not been able to tackle the route of which you speak as yet. We hope that next year we may be in a better situation to be able to do work that is required there. There are only one or two more airports required on the route, I believe; Riviere du Loup and Campbellton.

Mr. POULIOT: It will take much less time for you to carry your 2,000,000 passengers than it will to carry the first one.

Mr. SYMINGTON: I hope so.

Mr. POULIOT: And that will happen when you have landing facilities and sufficient routes to afford some opportunity to all who desire to use T.C.A. for transportation.

Mr. SYMINGTON: I sincerely hope so, Mr. Pouliot. It is not much use running an air line which will give people service unless they patronize it, and you have to give them a chance to patronize it, otherwise they won't know. But the centres of population along that route and the growth of such cities as Montreal, Quebec, Riviere du Loup, Mont Joli, which feeds Matane, Rimouski and those places down to Campbellton and across to St. John's, I think would be a route which has a very fair chance to be a successful route and certainly give service to a lot who to-day haven't got it.

Mr. POULIOT: It is evident that you can get a satisfactory return from the operation of such a line as this, Mr. Symington. What about jet planes? I don't suppose you are satisfied with what you are doing at the present time.

Mr. SYMINGTON: One is never satisfied in this business, Mr. Pouliot; because that is the trouble with it. We are considering jet planes, and when I say we are considering them, we are following the progress of the jets. Our engineers have been in consultation with the various manufacturers giving them ideas on what, if such planes are possible in this country, they would have to do —the flying characteristics, the climatic requirements and so on. We are always of necessity in touch with them. I do not anticipate there will be a jet plane flying commercially for three or four years yet. At least, that is what I think.

Mr. POULIOT: And the T.C.A. is taking advantage of research in that field?

Mr. SYMINGTON: Absolutely. In fact, I think probably we are the largest research bureau in Canada on aeronautics.

Mr. POULIOT: Thank you, Mr. Symington.

Mr. HAZEN: On page 8 of the report it says, "Great Lakes airway progressed".

Mr. SYMINGTON: Yes.

Mr. HAZEN: Have you any idea when that work will be completed?

Mr. SYMINGTON: I discussed that before lunch but I shall be glad to run over it again, if you wish.

Mr. HAZEN: I am sorry, I would not ask you to do that.

Mr. SYMINGTON: I shall be very glad to. As to that Great Lakes route we have completed the field near Owen Sound which was part of the route. We had to negotiate with the United States government for the use of Kinross field at the Sault, and for the use of an emergency field at Houghton. These international negotiations take time. They have been wound up and I have every reason to believe that the route will be in operation by the first day of July. In fact, the announcement has been in my office for some time now ready to go out, but I have not put it out because I wanted to make sure that the signature was on the dotted line, that these fields were absolutely ready, because I hate fixing a date and not living up to it. But I have every confidence that it will be in by July first.

Mr. HAZEN: Are those fields being built by the Transport Department?

Mr. SYMINGTON: No, they were military fields of the American government.

Mr. HAZEN: At Owen Sound?

Mr. SYMINGTON: Oh, at Owen Sound? One was a field which was fixed up a bit.

Mr. HAZEN: Who fixed it up?

Mr. SYMINGTON: The Department of Transport.

Mr. HAZEN: It says that work began at Winnipeg, Lethbridge and Toronto on runway extensions.

Mr. SYMINGTON: Yes. That is for the purpose of permitting safe landing of four-engine planes with a big load.

Mr. HAZEN: When will that work be completed?

Mr. SYMINGTON: I believe this spring, according to my information—this autumn, rather.

Mr. HAZEN: The Department of Transport is doing that work?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Do you know what the cost is?

Mr. SYMINGTON: No; not very much, though.

Mr. HAZEN: Do you know whether any consideration has been given to the construction of an airport at Fredericton, New Brunswick?

Mr. SYMINGTON: I only know what I have heard at this committee year after year, what I see in the papers, and what the Board of Trade writes me, and so on, but there are no visible signs of a new airport at Saint John.

Mr. HAZEN: I am talking about Fredericton.

Mr. SYMINGTON: No, I know nothing about it.

Mr. REID: I see that more ticket offices were provided. Where were those offices provided or established?

Mr. SYMINGTON: Those were established at Chicago when we started our Toronto-Chicago run; at Cleveland when we started our Cleveland run; at Boston when we started our Boston run; at Duluth when we started our Duluth run; at Seattle when we started our Seattle run; at Victoria, at Port Arthur, at Fort William—wherever a new route was started we had to have a ticket office.

Mr. POULIOT: Who builds the beams; is that done by the Department of Transport?

Mr. SYMINGTON: The Department of Transport.

Mr. LAPOINTE: Mr. Symington, in answer to Mr. Pouliott's question you were talking about the possibility of establishing lines down the St. Lawrence from Quebec to Riviere du Loup and Mont Joli, would that mean taking over the present C.P.R. line which travels from Montreal to Quebec and all the way down?

Mr. SYMINGTON: I think that has been understood. That route was passed by an order in council some years ago as a T.C.A. route. I think Quebec Airways are quite willing to retire from that field because they do not make any money out of it.

Mr. LAPOINTE: Can it be said that that question is under active, and serious consideration, to use the usual terminology?

Mr. SYMINGTON: I do not know as to that point. All I know is that the order in council is passed, and I want to run the route; that is all, if the government will build the air field.

Mr. LAPOINTE: I think I can say that you would be very welcome if you did run the route.

Mr. HAZEN: Do you know if any steps are being taken to develop an airport at Fredericton?

Mr. SYMINGTON: None that I know of. I have no personal knowledge of that.

Mr. POULIOT: You have the planes to run that route?

Mr. SYMINGTON: Yes.

Mr. POULIOT: You await only accommodation provided for the company by the Department of Transport?

Mr. SYMINGTON: Yes.

Mr. POULIOT: As soon as it is completed you are ready to go on?

Mr. SYMINGTON: Yes.

Mr. POULIOT: Thank you. Tell me, Mr. Howe, when do you expect these projected expansions?

Right Hon. Mr. HOWE: I expect a call from you, Mr. Pouliot.

Mr. JACKMAN: Looking over the income account and bearing in mind the fact that operating revenue increased 22 per cent during the year, some items seem to amount to very much more than the 22 per cent and yet we find flight equipment maintenance $1,445,000 as compared with $1,459,000 in the previous year. That account is about equal.

Mr. Symington: I will explain that. That is another reason I like the DC-3, and I am perfectly satisfied that this year will show a good deal better. The cost of maintenance of DC-3's which will carry twenty-one passengers is less than the cost of maintenance of the Lockheeds which will carry fourteen; and our aircraft costs, if my investigations and information from my maintenance people are correct, will still improve a great deal. That shows that with a great many more planes our cost of maintenance is not up.

Mr. Jackman: No; I notice the cost of maintenance is a favourable item, but take ground operations and you find that amounts to $3,638,000 as against $2,851,000. The cost varies on ground operations; we find some items that are very much out of line with the previous year.

Mr. Symington: I can answer that item by item here.

Mr. Jackman: All I want is the general reaction of the management when they find that the revenues are going up 22 per cent and yet certain items are increasing 50 or 100 per cent?

Mr. Symington: I endeavoured to give the explanation this morning. I told you that we did spend a good deal of money on training and a great deal of money on switching equipment, operating new equipment, in getting ready for planes that did not come on time, and that our costs are abnormally high. The salaries and wages on ground operations were up 36 per cent; total increases in wages and salaries $521,460. It reflects a 23 per cent increase in ground personnel which reflects an expansion of the services in that 37 per cent more miles were flown. The route mileage was increased 22·9 per cent and passengers carried increased 67 per cent. Increased supervision and training, transfer of personnel, accommodation for employees at isolated stations—it reflects the expansion of the service. There are increased buildings and offices, schedules and rentals. Those are some of the items under ground operations.

Mr. Jackman: What I am interested in is your reaction, as head of the business management of the T.C.A., when you find the various items increasing so much more percentage-wise than the revenue?

Mr. Symington: My answer is that I am disturbed if I have not got an answer to it; but I have. It is disturbing in a sense. One does not like to see these things. You cannot pay $400,000 more for wage increases and lose $400,000 in carrying mail, and you cannot spend $800,000 in training for an increased operation which will last for some years without running into times such as these. And I trust you took in, when I enlarged on the matter this morning, the losses of the American lines which have been continually thrown up to us, and which losses far, far exceed ours, under what I think are not as trying circumstances.

Mr. Jackman: I must say that I see some of these items going up—salaries and wages, passenger agents, rentals of fields, buildings, offices, $191,000 against $132,000—

Mr. Symington: If you carry 67 per cent more passengers they are bound to go up. Are you not satisfied with the explanation? I do not want you to reject the explanation out of hand.

Mr. Jackman: So many of these items: agency commissions, renting offices; passenger food services rises from $200,000 to $356,000.

Mr. Symington: Add 67 per cent onto that, and I say you are feeding 67 per cent more passengers. Also, as I explained this morning, when we got the DC-3 planes we were able to serve hot meals instead of cold ones, which pleased our passengers. There is a perfectly good answer to these services. I would say that an expansion of 35 per cent more miles flown is a reason for the reflection of the 23 per cent in ground personnel. If we carry 67 per cent more passengers than we have ever carried before then our services must

inevitably go up, particularly when even then there is a great deal of capacity which is not filled.

Mr. JACKMAN: As Mr. Pouliot suggested it costs a good deal less for the Nth unit than it does for the first unit.

Mr. SYMINGTON: It costs less for the Nth unit if you fill them, but you cannot run air lines on a hand to mouth basis. We have now practically 50 per cent of our seats to fill because we have gone through the reconstruction period to the after-war period when people were demanding services and demanding seats. We had an opportunity to buy these planes and convert them and we did it. Now we have to go out and fill those planes; and that is your complete answer. If we can fill them we can make money; if we cannot fill them we will not make money. It is just as simple as that, apart from the fact that you have got to keep your eye on everything all the time to see that nobody gets reckless either in life or money; and that is what air line operation requires.

Mr. JACKMAN: It almost comes back, it seems to me, to the very important consideration as to whether we are not expanding this enterprise a little faster than the field deserves.

Mr. SYMINGTON: That may be, but you cannot expand from hand to mouth in a rapidly changing operation of this kind. You just cannot do it. You will have your good years and you will have your bad years and the bad years are the times you will have to completely change your operation as we have been forced to do after several years of war.

Right Hon. Mr. HOWE: It is a matter of government policy. It is partly our reconstruction plan to expand aviation to take care of returning airmen.

Mr. SYMINGTON: I would not accept that as a reason; though I take the responsibility for the expansion because I think the expansion was required if we were going to run air lines. You do not have to sit and take the abuse that my people did because people were put off planes or could not get seats, and we were called a one-horse line. We got a chance to buy those planes and we bought them, and we are going to fill them; and in the intervening period, as I told you last year, the financial difficulties will be greater than other years, and I think the financial difficulties this year will probably not be entirely pleasing. But we are building up a service. We served 308,000 people this year as opposed to 150,000 the year before. We are carrying people to more places all over the country and we are contributing to a new form of transport. If you think you can take a yard measure and measure out by inches a running operation like that, I say you just cannot do it. If you are not prepared and have not got the courage to provide facilities then you had better get out of business. I agree that you can overdo it; you can overdo anything. It is a matter of judgment, and your judgment may be wrong. But as far as T.C.A. is concerned, I do not think we will be very far wrong and we have not been very far wrong.

Mr. JACKMAN: Would you care to express an opinion as to the rate of expansion of the T.C.A. as compared with a typical Transcontinental line in the United States in the last year?

Mr. SYMINGTON: Oh, we have not spent—

Right Hon. Mr. HOWE: We do not pay any attention to what they do in the United States.

Mr. SYMINGTON: We are pikers compared to those lines. Look at their position: T.W.A., one line out of eighteen, lost $8,500,000; America Air Lines, supposed to be one of the most expert in the United States, lost $5,000,000 in three months.

Mr. NICHOLSON: What happened to United?

Mr. SYMINGTON: United lost money, but they are good operators. They are more conservative than the other fellows and they did not lose so much.

Mr. NICHOLSON: When you considered increasing the fares was that in line with American policy?

Mr. SYMINGTON: It was not in line with it. As a matter of fact, the two arose without any knowledge one of the other at all. In fact, the American lines and ourselves had never discussed it at all. It was perfectly obvious to me that we could not go on paying extra costs and go through the period we were at the rates we were charging. It was a great relief to me when I found before our increase came in—which was an increase of the board; it was not an increase of anybody else—that the American lines—and it was the C.A.B. that did it there—had advanced their rates 10 per cent.

Mr. NICHOLSON: Your rates per mile are now about the same?

Mr. SYMINGTON: Pretty approximately, yes. Ours may be the odd fraction higher here or there, but we still give the 10 per cent return discount that they do not. Many of them do not.

Mr. NICHOLSON: You were giving 15 per cent on your credit cards?

Mr. SYMINGTON: We were giving 15 per cent on our credit cards. That is out, and I think properly.

Mr. NICHOLSON: It has been out in the United States for some time?

Mr. SYMINGTON: Yes, it went out two or three years ago. For instance, we were giving that discount usually to large companies who had a lot of people travelling. They had to put up a deposit. Then the commercial travellers came along and they said, "Here, we cannot afford to do this. We have always had our own rates on the railways. Why should these people have a discount and we not have it?" Then somebody else comes along and say that they are a member of some organization and their people travel a good deal and why should they not have the 15 per cent discount. That was the experience in the United States, and I think it was wise to put everybody on the same basis, so that the discount was discarded.

The CHAIRMAN: Any other questions?

Mr. HAZEN: On page 8 you refer to the fact that although equipment was scarce the first steps were taken towards the provision of instrument landing systems at Canadian airports. At what airports were those instrument landing systems installed?

Mr. SYMINGTON: Work has been done at Montreal, Toronto, Winnipeg, Regina, Lethbridge and Vancouver. The I.L.S. test installation was at Dorval.

Mr. HAZEN: Has that proved satisfactory?

Mr. SYMINGTON: When you say a thing is satisfactory nothing will be satisfactory until you get absolutely blind landings. That is coming.

Mr. HAZEN: That is what I was going to ask about.

Mr. SYMINGTON: That is coming as soon as the human mind and ingenuity can master it, but the instrument landing system and the ground control approach are very great improvements over what we have had. We can come in now with a much lower ceiling perfectly safely with these approach systems. It is not a matter of being able to do it in a month or a year. I noticed the day before yesterday the United States government voted $50,000,000 for these very things we are talking about, just pure experimental work. We keep up to date on it by means of IATA which, incidentally, costs us a good deal of money because as we are here we are the people who are called on for a good deal of expert advice and assistance. They are working on it. Everybody is working on it because air transport can never be complete until you get regularity, and you cannot have regularity until you get blind landing.

Mr. HAZEN: You cannot make blind landings now?

Mr. SYMINGTON: No.

Mr. HAZEN: You are not that far advanced?

Mr. SYMINGTON: Nobody can make blind landings.

Mr. HAZEN: You can make landings when the visibility is limited?

Mr. SYMINGTON: Yes.

Mr. HAZEN: To what extent?

Mr. SYMINGTON: Taking one field as an illustration you could not come in under a thousand feet and now I think you can come in under a ceiling of 300 feet.

Mr. HAZEN: Does that mean if you can see down 300 feet you can make your landing?

Mr. SYMINGTON: Yes, with this assistance.

Mr. HAZEN: Last year did you have many accidents?

Mr. SYMINGTON: No.

Mr. HAZEN: To what extent did you suffer damage to your planes?

Mr. SYMINGTON: I have a statement on that. On February 12, at Regina, an undercarriage buckled when landing, and the damage was $7,000.

Mr. HAZEN: Where was that?

Mr. SYMINGTON: Regina. The undercarriage buckled, and that was what it cost us to fix it up. At Moncton there was a crash landing and the plane was destroyed.

Mr. JACKMAN: A training landing?

Mr. SYMINGTON: That was a training landing.

Mr. HAZEN: Did you attach any value to that plane?

Mr. SYMINGTON: $12,285. When I say value of the plane that was everything. At Moncton on October 5, the brakes failed and there was a collision with a building. There was $1,000 worth of damage. At Winnipeg a plane taxied off the runway causing $1,000 worth of damage. At Toronto on November 11 an undercarriage buckled and did $2,000 worth of damage.

Mr. HAZEN: What about injuries to passengers? Were there any injuries suffered by passengers?

Mr. SYMINGTON: No injuries to passengers.

Mr. NICHOLSON: Have you any statistics to indicate how safe it is to travel by air compared with trains, buses, and automobiles?

Mr. SYMINGTON: I have not that with me, but they are very much safer than any other form of travel today on record. The trouble is it is more or less a spectacle when anything happens, but you are safer travelling in the air than you are travelling by any other means of travel.

Mr. MUTCH: There are no statistics as to injuries as to passengers? There are practically none?

Mr. SYMINGTON: Oh no, practically none.

Mr. MUTCH: You either get there or you do not?

Mr. SYMINGTON: Yes, exactly so.

Mr. NICHOLSON: You have not comparative figures for Canada as compared with other countries?

Mr. SYMINGTON: I have always hesitated to discuss these things, perhaps being a little superstitious, but our record is certainly better than or as good as anybody else's. It was better than anybody else's up to the time of this last unfortunate accident. I have not looked at the percentage since then, but before that we were above everybody in the situation.

Mr. JACKMAN: I still have not got it very clearly in my mind as to the rate of expansion here compared with the United States.

Mr. SYMINGTON: I think our rate of expansion is a good deal less than across the line. In fact I am sure it is a great deal less and properly so. There is no credit coming to us for that. It is just that conditions are greatly different.

Mr. HAZEN: Last year when this report was being considered by the committee the Minister of Reconstruction told us that the city of Saint John was not satisfied with the reports of weather conditions at Clover Valley. He said the meteorological people were to carry on investigations. I should like to ask the minister if he can tell us if those investigations have been completed, and if a report has been received.

Right Hon. Mr. HOWE: I do not think they have been completed. I have not received a report recently. They have been carrying on further investigations there during the last several months. However, we have moved over to Penfield, which is handy to Saint John, and we expect very good business out of Saint John.

Mr. HAZEN: Is it the intention to close Blissville?

Right Hon. Mr. HOWE: Yes.

Mr. REID: The longer we deal with this report the more things we think we see in it. Otherwise I probably would not have asked this question. On page 8 you give the passenger revenue per revenue passenger as $26.41. Then when you turn to page 14 the operating revenue from passengers is given as $8,065,477. I may be wrong, but I have been multiplying 305,000 passengers by $26.41, and that gives a total of $7,986,713. I am wondering if I am correct. As I say, that question would not have been asked, but the longer we deal with the report the more things you think you see. It is a pastime of mine to do multiplication when I have nothing else to do. I like to dabble with these figures.

Mr. SYMINGTON: Perhaps your multiplication is a little wrong. I think it is a question of fractions. I will have these accounting gentlemen multiply it.

The CHAIRMAN: Are there any other questions while that answer is being prepared? We have the auditor's report. I was in hopes we could start it.

Mr. LOCKHART: How many passes were issued? That may have some bearing on Mr. Reid's question. How many free passes were issued on the line?

Mr. SYMINGTON: That is here.

Mr. LOCKHART: That might have some bearing.

Mr. SYMINGTON: I do not think that would have any bearing. I think the $26.41 multiplied by the number of paid revenue passengers should give you the figure. You see it says passenger revenue per revenue passenger was $26.41. We carried some 308,000 passengers and it ought to give that figure. At least, I should think so.

Mr. LOCKHART: How many free passes were issued?

Mr. SYMINGTON: I can get you that.

Mr. MCCULLOCH: I would move that the report be adopted.

Mr. LOCKHART: Just a moment.

Mr. SYMINGTON: There were T.C.A. employees on vacation, 3,747; dependents of T.C.A. employees on vacation, 1,665; employees of the Department of Transport on business, 71; courtesy flights to press, Canadian Broadcasting Corporation, etc., 822. That is in connection with opening lines and publicity. Employees of Post Office Department on business relating to air mail service, 62; employees of other air lines, 4; dignitaries of allied governments, 10; employees of the C.N.R. on company business, 66; others consisting of deportees and immigration officers, 33; employees on educational flights, 8, or a total of 6,500 odd.

The CHAIRMAN: Gentlemen, it has been moved that the report be adopted. Have you asked all the questions you wish to ask? I do not want to be put in the position of cutting off discussion. It has been moved by Mr. McCulloch that the report be adopted.

Carried.

What about the auditor's report? We have a representative of the auditors here. That is on page 14 of the auditor's report. I do not imagine it is necessary to read it. Have you any questions on the auditor's report on the Trans-Canada Air Lines? Mr. Matthews is here if you wish to ask him any questions.

TRANS-CANADA AIR LINES

March 15, 1947.

The Right Honourable the Minister of Reconstruction and Supply,
Ottawa, Canada.

Sir:—

Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the Trans-Canada Air Lines for the year ended December 31, 1946, and we now submit, through you, our report to Parliament.

The Air Lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our Audit Certificate appended to the accounts published by the Air Lines, we make the following comments on the Income Account, Surplus Account and Balance Sheet:—

Income Account

Mail Revenue up to March 31, 1946 is based on plane mileage flown in approved mail services and thereafter on mail pound mileage in accordance with the revised Trans-Canada Mail Contract.

The Deficit amounting to $1,115,000 for the year 1946 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Depreciation................	$ 399,000
Less: Depreciation	1,514,000
Deficit	$ 1,115,000

The Deficit in 1946 is before providing for the 3 per cent charge on the Capital furnished to the Air Lines by the National System which has been treated as a Dividend Appropriation of Surplus. In 1945 the 5 per cent charge by way of Interest was made through the Income Account. The change in procedure in 1946 arises out of the 1945 amendments to the 1937 Act.

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Personnel Training Costs arising out of the program of air service expansion in Canada and to the United States together with any training costs which may be applicable to Atlantic Overseas operations;

(*b*) Administrative Charges by Canadian National Railways;

(*c*) Rentals of Landing Fields, Hangars and other Buildings, Airport Offices, etc.;

(*d*) Pensions covering
- (i) Company's portion of accruals under the Air Lines 1943 Plan, and
- (ii) Company's portion of accruals for transferred employees remaining under the C.N.R. 1935 Plan;

(e) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters, and

(f) General Taxes covering principally Dominion Unemployment Insurance and Municipal Taxes.

The costs of completed Personnel Training and pro rata portions of Administrative and General Overhead applicable to the Atlantic Overseas operations are credited to Gross Revenue and charged to the "Canadian Government Trans-Atlantic Air Service".

Administrative Charges made by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continue to act in such capacities without remuneration.

Rentals of Landing Fields, based broadly on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of Hangars and other Buildings, Airport Offices etc. are paid to the same agencies in those cases where the T.C.A. has not constructed such facilities.

Depreciation of Lockheed Flying Equipment is based on estimated "service year" life for air-frames and "flying hour" life for engines, propellers and hubs. Depreciation of Douglas DC-3 Flying Equipment and all Ground Facilities is based on the estimated "service year" life. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of Capital Assets.

The Deficit of $1,115,000 compares with a Surplus of $263,000 in 1945 as adjusted to the current accounting basis in respect of dividends. An important factor in this change in results was the decline in mail pound mileage which is the basis of Mail Revenue from the 1st April, 1946, under the terms of the revised Trans-Canada Mail Contract, notwithstanding the increase in miles flown with revenue mail.

Surplus Account

The Surplus decreased $1,270,000 as a result of the Deficit and the Appropriation for Dividends in 1946.

Balance Sheet

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

A physical inventory of Material and Supplies was taken in the main as at the 26th October, 1946, and in connection therewith we have received certificates from the responsible officers to the effect that the quantities were determined by actual count, weight or measurement or by conservative estimate where actual count, weight or measurement was impracticable. Material and Supplies at the 31st December, 1946, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Current Assets show a ratio of 0·8 to 1 of Current Liabilities. The Working Capital position of the Air Lines is presently maintained under conditions similar to those prevailing in privately owned enterprises financed only by way of Share Capital and Cash from Depreciation and Net Surpluses.

The Deferred Charge for Research and Development Expense is composed of engineering and other staff costs, shop work etc. held in suspense mainly in connection with the manufacture of the DC-4 "North Star" aircraft. Section 15 of the agreement dated the 11th June, 1945, between His Majesty and the Air Lines as agent-operator of the "Canadian Government Trans-Atlantic Air Service" provides, *inter alia,* that in any year in which a Surplus is earned by the Service the Air Lines is to be paid one-half thereof to be used by it as a reserve to provide funds to meet Research and Development Expense from time to time in connection with new and additional international services. No financial settlement has as yet been determined upon in respect of the aforementioned contractual provision.

The Insurance Fund is composed of Dominion of Canada securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost. We would again make mention of the fact that the risk coverage presently includes, *inter alia,* 100 per cent Passenger Liability and Damage to the Property of Others in respect of the twin-engine equipment. The Fund increased $405,000 during the year.

Investments in Property and Equipment are carried on the general basis of cost. During the year 1946 the Additions and Betterments less Retirements and Sales amounted to $5,619,000, the principal expenditures being for the purchase of twenty-four DC-3 aircraft.

Accrued Depreciation covers the period from the inception of operations in 1937 to 1946. The Reserve increased $1,596,000 during the year.

The Insurance Reserve, which includes the amount set aside for unadjusted loss claims at the date of the Balance Sheet, increased $405,000 during the year.

The Inventory Reserve relates to the potential loss on surplus stores based on the presently estimated service life of the Lockheed aircraft. During the year the Reserve was reduced $95,000 through concurrent credits to Accrued Depreciation as a result of the capitalizing of spare parts.

The amount of the Paid-Up Capital Stock was increased by $2,000,000 in order to finance a portion of the Capital Expenditure program in 1946.

Surplus covers the years 1940 to 1946 inclusive.

The Major Contingent Liabilities of the Air Lines are relative to any undertakings for the purchase of additional Equipment and general operating materials.

In respect of Pension Plans, it should be noted that:—

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the Company and employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the Air Lines. The assets of the separate Pension Trust Fund amounting to $1,463,000 are in the form of Dominion of Canada securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered Pension Trust Fund under that Plan, the accruals for which the Company is liable in respect of transferred employees being paid to the Canadian National Railways.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are stated in Canadian Funds converted at the par of exchange.

The test audit of the Air Lines for the year 1946 was similar in scope to that of the National System previously outlined in this report.

The amounts shown throughout this Report are to the nearest thousand dollars.

Mr. JACKMAN: Mr. Symington, would it be your opinion as an operator that you should charge less depreciation, based on your experience?

Mr. SYMINGTON: No, it would not. We find on the planes we are now selling we do not get very much for them.

Mr. JACKMAN: You are on 32 per cent per year?

Mr. SYMINGTON: No, no. That is on these second-hand planes which were reconditioned, and all that sort of thing.

Mr. JACKMAN: There is a five-year life on the new ones?

Mr. SYMINGTON: Oh yes, six.

Right Hon. Mr. HOWE: The Americans are charging seven.

Mr. SYMINGTON: These North Star planes will be depreciated on a six-year basis. I do not think you will have anything better to replace them or anything better in the air until jet comes, and I doubt if that will come.

The CHAIRMAN: Any questions on the auditor's report?

Mr. JACKMAN: We might ask the auditor to direct the committee's attention to anything particular in his report. I notice he mentions the surplus account being decreased $1,270,000 as a result of the deficit and the appropriation for dividends in 1946. If he wishes to make any statement I think he should do so to the committee.

The CHAIRMAN: Do you wish to make a statement, Mr. Matthews, on what Mr. Jackman has said? Mr. Jackman, would you put your question again to Mr. Matthews?

Mr. JACKMAN: Yes. I asked Mr. Matthews if he wished to draw the attention of the committee to anything in his report. I do not know whether or not he should comment on it but I just noted the fact that the surplus decreased $1,270,000 as a result of the deficit and the appropriation for dividends in 1946. Was there anything, Mr. Matthews, you wished us to pay particular attention to?

Mr. MATTHEWS: On that particular point?

Mr. JACKMAN: Or anything at all in your report.

Mr. MATTHEWS: On that one matter nothing more than to make it clear to the committee that during the year there was a change in policy. Prior to 1946, as was explained this morning, there was interest charged in the operating expenses, but with the new post office arrangement that became unnecessary, and therefore the policy was decided upon by the T.C.A. to declare a dividend in 1946.

In making a comparison, however, between 1946 and 1945 we do point out that the deficit of $1,115,000 for 1946 compares with a surplus of $263,000 in 1945 if you eliminate the interest in 1945 as was done in 1946.

Mr. JACKMAN: Formerly the post office rate was flexible according to the results and the 5 per cent charge on capital was mandatory in the accounts?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Now it is a dividend?

Mr. MATTHEWS: Under the original T.C.A. Act of 1937 there was provision that the 5 per cent would be included in the operating expenses for interest in determining the results. With the new postal arrangement, where it was on a straight pound mileage basis, that became unnecessary, of course.

Mr. JACKMAN: Is there anything you want us to look at or any comments you have to make particularly on the insurance fund or anything else?

Mr. MATTHEWS: On the matter of the deferred charge for research and development we did think it advisable to call the attention of the committee to the fact that under the agreement of 1945 the results of the Trans-Atlantic air service have not as yet been determined, and it could be that there might

be something in the way of an adjustment if there are profits shown from that service, but as the minister pointed out this morning that will depend entirely on what the results show. We do not know what they are. It could be that an adjustment could be made in the amount to be provided for research and development if any profits were shown.

Mr. JACKMAN: That would be a credit adjustment?

Mr. MATTHEWS: Right. The only other point we think important has to do with the carrying of the 100 per cent risks on the twin engine planes in the fund. Of course, we had no knowledge of the situation that developed recently, but our thought on that is that in the operations over densely populated areas like New York, for instance, we are not passing any opinion on the matter, but we do feel that the committee should understand that as to the insurance coverage on all twin engine planes, which will include the new DC–3's, the entire risk is carried in the insurance fund. In regard to the four-engine craft the company has instituted a policy of insuring with outside underwriters in excess of individual losses of three-quarters of a million dollars for each accident, or a maximum of $5,000,000. We would not presume to say that the company should cover any portion of the twin-engine planes. We merely wish to make it clear to the committee that the coverage is all assumed in the insurance fund for the twin-engine planes. From my discussions with Mr. Symington I think he feels that the company is able to stand it.

Mr. JACKMAN: As far as the twin-engine planes are concerned the company carries its own insurance risks?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: And as to the four-engine planes?

Mr. MATTHEWS: Over three-quarters of a million.

Mr. JACKMAN: On a single accident. You have a policy covering that?

Mr. MATTHEWS: Yes.

Mr. SYMINGTON: That is a decision of the directors.

Mr. JACKMAN: With a limit of $5,000,000?

Mr. SYMINGTON: $5,000,000. We assume the first risk. The directors have considered this matter, and I think it is a matter for them entirely. We have, as you know, built up a fund now of $1,540,000 and that is not hay in any man's language, and we can take care of our liabilities. We hope so anyway.

The CHAIRMAN: Is that all, gentlemen? Would someone move that the auditor's report be adopted?

Mr. SYMINGTON: Mr. Chairman, with your permission, before we adjourn, this is the last time on which I will appear before you in this position. One thing the T.C.A. needs is a new president. I would like to thank you for your continued courtesies and to say to you, and through you I hope to parliament, that the T.C.A. is, I think, a real accomplishment. It has done good service to its country. It has built up through very trying times an air line which is recognized throughout the world as one of the best. It has contributed its part towards making Canada and Montreal the air headquarters of the world. It has done its part, I think, in helping to establish the airplane industry in Canada. It is a very difficult operation and a difficult country to operate in. It will have some years that are no so good, and will have years that are good. It is a body of young people who are intensely interested in their job. It is rather a unique organization. Don't destroy it, but nurture it; because I think it deserves it.

Right Hon. Mr. HOWE: Mr. Chairman, since Mr. Symington has said what he has, I want to pay tribute on behalf of the government to his part in having built the line. He took over its direction from the inception of the line and has carried it on during the most difficult part of its existence and carried it successfully through its period of great expansion. His work on Trans-Canada Air Lines has been done entirely at his own expense. He has not drawn a nickel of

salary from the government or from the airline. He is recognized amongst operators throughout the world as the top man in the industry; and I think it is largely because of Mr. Symington that the operators' association known as the International Civil Air Organization located its headquarters in Montreal. He was its first president.

I think the committee would like to join with the government in tendering our sincere thanks to him for his service on behalf of Trans-Canada. It is fortunate that he is not leaving immediately, I hope; but he and I have agreed that the burden is one which perhaps should be placed on other shoulders. As you know, he has a good many irons in the fire outside of Trans-Canada. I want to say that I can only hope that after he has gone we will find someone to accept the position of president who will be able to give the fine type of high service that Mr. Symington has given in the years during which he has served as president of the line.

Mr. JACKMAN: In seconding the resolution proposed by the minister may I say that we agree that T.C.A. will miss the leadership which has been given by Mr. Symington during his term as president, and we appreciate that he is leaving that office only because he finds it no longer possible to serve in that capacity. On behalf of those who have asked so many questions of Mr. Symington, I want to say that we appreciate what you have done for T.C.A.

Mr. NICHOLSON: Mr. Chairman, to make it unanimous I would like to add my word of appreciation to Mr. Symington for the outstanding leadership which he has given to this very important field of transportation. I think that T.C.A. will always be regarded as Mr. Symington's "baby", and I am sure that in the years to come we will all realize how fortunate we have been that the T.C.A. developed under his direction.

Mr. POULIOT: Mr. Chairman, I want to say to Mr. Symington that we all appreciate the very great work that he has done in the development of the T.C.A. However, I think tribute should be paid where tribute is due; I think a great deal of credit goes to Commander Edwards and the staff of the Department of Transport; and particularly to the Right Hon. Mr. Howe, in the first place for having the foresight to undertake such a development, and in the second place for having made the choice of such an able man as Mr. Symington to give it leadership. Of both Mr. Howe and Mr. Symington I think it can be fairly said that they are truly nation-builders, and I would like to recognize in that same category those members of their staffs who have so ably given assistance to the development of this great system of transportation. I can think of nothing which has done more to the essential development of Canada as a nation than the progress that has been made in the field of aviation. Until now it has been a country isolated on all sides by vast oceans, except of course to the south, the United States, and now T.C.A. links Canada with the rest of the world. At its inception there were some of us who thought T.C.A. would not be very much of a success, but I am happy to say that we have to-day the greatest pride in the splendid development which has been achieved. It is certainly a pleasure for me to see members of all political parties here to-day join in such a friendly spirit to pay a well-deserved tribute to Mr. Howe, Mr. Symington and the personnel of T.C.A. and to the staff of the air transport branch of the department.

The CHAIRMAN: Mr. Symington, I am sure every member of the committee regrets that you are going to retire as president of the Trans-Canada Air Lines and I think they have expressed their feelings to you to-day wholeheartedly; they appreciate perhaps more than words can express your work with T.C.A. On their behalf I tender to you their deep appreciation and the hope that in any new field you may take over you will have the same success as you have had with T.C.A.

The committee adjourned at 5.45 p.m. to meet again at the call of the Chair.

APPENDIX "S"

BALANCE SHEET AT 31st DECEMBER, 1946.

ASSETS

Current Assets:		
Cash	$ 674,454.88	
Working Fund Advances	26,456.76	
Special Deposits	1,647.55	
Accounts Receivable	1,528,760.35	
Traffic Balances Receivable	369,174.78	
Balances Receivable from Agents	73,685.54	
Material and Supplies	1,551,403.21	
Other Current Assets	140,041.54	$ 4,365,624.61
Deferred Charges:		
Prepaid Charges	$ 18,089.21	
Prepaid Group Life Insurance	13,961.69	
Research and Development Expense	413,067.43	
Other Deferred Charges	58,409.42	503,527.75
Insurance Fund		1,514,273.38
Investments in Affiliated Companies		6,287.00
Capital Assets:		
Property and Equipment	$12,981,186.01	
Less Accrued Depreciation	*5,444,077.20*	7,537,108.81
		$13,926,821.55

LIABILITIES

Current Liabilities:		
Audited Accounts Payable	$1,509,826.60	
Accrued Accounts Payable	2,352,435.21	
Traffic Balances Payable	51,701.92	
Air Travel Plan Deposits	652,375.00	
Salaries and Wages	325,798.51	
Other Current Liabilities	565,349.70	$ 5,457,486.94
Reserves:		
Insurance	$1,514,273.38	
Inventory	100,000.00	1,614,273.38
Capital Stock:		
Common Stock Authorized—Par Value $25,000,000		
Common Stock Subscribed—Par Value	$8,000,000.00	
Less Uncalled Subscriptions to Common Stock	*1,400,000.00*	6,600,000.00
Surplus		255,061.23
		$13,926,821.55

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1946, and subject to our report to Parliament, we certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1946, and that the relative Income and Surplus Accounts for the year ended 31st December, 1946, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1947.

APPENDIX "B"

INCOME ACCOUNT

	1946	1945
Operating Revenues:		
Passenger	$ 8,065,477.04	$ 5,462,939.77
Mail	3,780,508.72	4,250,939.06
Express	305,238.69	307,386.62
Excess Baggage	72,946.77	53,790.04
Incidental Services—Net	586,633.88	437,532.49
Total	$12,810,805.10	$10,512,587.98
Operating Expenses:		
Flight Operations	$ 3,500,618.71	$ 2,589,201.53
Flight Equipment Maintenance	1,445,757.05	1,459,572.02
Flight Equipment Depreciation	1,388,635.49	785,660.34
Ground Operations	3,638,415.45	2,851,379.15
Ground Facilities Maintenance	215,906.47	212,139.38
Ground Facilities Depreciation	125,776.33	118,995.41
Indirect Maintenance	843,058.45	553,032.04
Passenger Service	954,570.75	620,105.89
Traffic and Sales	921,238.31	511,576.29
Advertising and Publicity	220,758.29	64,197.83
General and Administrative	689,203.79	484,411.70
	$13,943,939.09	$10,250,271.58
Interest Income	8,899.87	29,620.64
Miscellaneous Income—Net	8,978.21	*29,164.55*
Interest on Capital Invested	—	230,000.00
Total	$13,926,061.01	$10,479,815.49
Deficit 1946—Surplus 1945	*$ 1,115,255.91*	$ 32,772.49

SURPLUS ACCOUNT

at 31st December, 1946

Balance at 1st January, 1946		$ 1,524,685.62
Net Loss in Operations, year 1946	$ 1,115,255.91	
Dividend Appropriation of Surplus	154,368.48	
Balance at 31st December, 1946	255,061.23	
	$ 1,524,685.62	$ 1,524,685.62

STATISTICAL DATA

	1946	1945
Route Mileage Operated	6,511	5,299
Plane Miles Flown—Revenue	14,162,377	10,506,075
Plane Miles Flown—Non-Revenue	1,702,293	1,040,152
Revenue Passengers Carried	305,442	183,121
Average Passenger Journey—Miles	510	579
Percentage of Passenger Occupancy	76	84
Mail Ton Miles	1,210,716	1,571,180
Express Ton Miles	380,557	400,577
Excess Baggage Ton Miles	132,935	100,110

APPENDIX "C"

Flight Operations

		1946	1945
601	Salaries and Wages	$ 1,277,739.42	$ 898,064.16
602	Supplies and Expenses	189,369.03	133,959.90
603	Aircraft Engine Fuels	1,669,901.90	1,303,157.34
604	Aircraft Engine Oils	64,643.02	47,905.10
605	Customs and Immigration	39,872.99	15,995.16
606	Flight Equipment Insurance	191,871.73	147,292.64
607	Liability and Compensation Insurance	30,884.59	22,705.57
608	Other Flight Expenses	36,336.03	20,121.66
		$ 3,500,618.71	$ 2,589,201.53

Flight Equipment Maintenance

611	Aircraft Repairs	$ 762,930.77	$ 708,941.02
612	Aircraft Propeller Repairs	18,480.59	30,866.34
613	Aircraft Instrument Repairs	58,163.66	58,292.99
614	Aircraft Engine Repairs	520,253.73	597,935.15
615	Aircraft Communications Equipment Repairs	60,835.02	42,519.55
616	Miscellaneous Flight Equipment Repairs	25,093.28	21,016.97
		$ 1,445,757.05	$ 1,459,572.02

Flight Equipment Depreciation

621	Aircraft Depreciation	$ 856,986.76	$ 449,651.14
622	Aircraft Engine Depreciation	326,014.30	276,295.22
623	Aircraft Propeller Depreciation	85,116.05	36,931.70
624	Aircraft Communication Equipment Depreciation	44,911.24	22,782.28
626	Spare Parts Depreciation	75,607.14	—
		$ 1,388,635.49	$ 785,660.34

Ground Operations

631	Salaries and Wages—Supervision	$ 392,819.16	$ 289,523.27
632	Salaries and Wages—Flight Control	113,258.50	81,888.72
633	Salaries and Wages—Communications	301,590.43	279,152.24
634	Salaries and Wages—Station Managers	133,897.66	106,332.66
635	Salaries and Wages—Passenger Agents	233,019.53	151,179.67
635	Salaries and Wages—Reservation Agents	168,026.04	143,009.91
636	Salaries and Wages—Service Employees	1,079,448.14	849,513.21
637	Travelling and Incidental Expenses	184,916.15	107,013.45
638	Office Supplies and Expenses	115,403.93	92,141.39
639	Telephone, Telegraph and Teletype	260,916.86	219,635.88
640	Light, Heat, Power and Water	81.736.34	67,986.91
641	Rents of Fields, Buildings and Offices	191,545.38	132,126.87
642	Motor Vehicle Operation	37,848.80	27,861.74
643	Buildings and Ground Equipment Insurance	8,915.02	7,906.06
644	Liability and Compensation Insurance	7,281.60	15,907.66
645	Servicing Supplies and Expenses	80.490.61	68,891.10
646	Other Expenses	134.082.97	95,709.51
647	Express Expenses	113.218.33	115,598.90
		$ 3,638,415.45	$ 2,851,379.15

Ground Facilities Maintenance

651	Communication Equipment Repairs	$ 30,021.29	$ 51.879.44
652	Shop and Hangar Equipment Repairs	48,902.40	43,607.61
653	Motor Vehicle Repairs	41,633.83	32.466.48
654	Buildings and Improvements Repairs	72,162.59	67,998.53
655	Miscellaneous Ground Equipment Repairs	23,186.36	16,187.32
		$ 215,906.47	$ 212,139.38

APPENDIX "D"

		1946	1945
Ground Facilities Depreciation			
658	Ground Facilities Depreciation	$ 125,776.33	$ 118,995.41
Indirect Maintenance			
661	Salaries and Wages—Supervision	$ 299,799.13	$ 224,040.77
662	Travelling and Incidental Expenses	35,308.81	5,042.45
663	Office Supplies and Expenses	31,449.90	11,577.04
664	Light, Heat, Power and Water	32,921.65	27,824.13
665	Rents of Buildings and Offices	2,365.02	1,380.00
666	Shop Supplies and Expenses	224,509.96	180,735.34
667	Stores Expense	163,117.32	111,794.82
668	Stores Inventory Adjustment	39,501.99	*29,776.71*
669	Buildings, Material and Ground Equipment Insurance	5,437.16	4,916.62
670	Liability and Compensation Insurance	6,503.44	12,195.30
671	Other Expenses	2,144.07	3,302.28
		$ 843,058.45	$ 553,032.04
Passenger Service			
681	Salaries and Wages—Supervision	$ 29,461.44	$ 21,000.44
682	Salaries and Wages—Stewardesses	207,107.51	145,229.21
683	Travelling and Incidental Expenses	80,989.30	60,513.63
684	Office Supplies and Expenses	628.94	512.70
685	Passenger—Food Service	356,029.87	199,224.18
686	Passenger—Supplies and Expenses	60,694.27	36,100.29
687	Passenger—Interrupted Flight Expenses	52,783.53	53,710.78
688	Liability and Compensation Insurance	166,875.89	103,814.66
		$ 954,570.75	$ 620,105.89
Traffic and Sales			
691	Salaries and Wages—Supervision	$ 74,962.53	$ 31,798.46
692	Salaries and Wages—Representatives	87,742.52	65,053.46
693	Salaries and Wages—Other Employees	392,504.01	207,350.61
694	Travelling and Incidental Expenses	77,799.01	26,070.10
695	Office Supplies and Expenses	63,858.73	33,598.35
696	Telephone, Telegraph and Teletype	102,759.30	77,915.67
697	Rents of Offices	64,452.36	37,922.00
698	Agency Commissions	51,053.48	27,376.64
699	Liability and Compensation Insurance	734.80	787.18
700	Other Expenses	5,371.57	3,703.82
		$ 921,238.31	$ 511,576.29
Advertising and Publicity			
706	Advertising and Publicity	$ 220,758.29	$ 64,197.83
General and Administrative			
711	Salaries and Wages—Supervision	$ 291,622.99	$ 197,142.40
712	Travelling and Incidental Expenses	25,364.47	17,427.28
713	Office Supplies and Expenses	32,526.95	22,301.09
714	Telephone and Telegraph	4,595.28	4,429.40
716	Administration Charges from Affiliated Companies	50,000.00	50,000.00
717	Pensions	199,920.00	125,781.92
718	Liability and Compensation Insurance	1,347.05	1,033.42
719	Other Expenses	25,504.00	20,999.77
720	General Taxes	58,323.05	45,296.42
		$ 689,203.79	$ 484,411.70

SESSION 1947

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS INCLUDING
THIRD REPORT TO THE HOUSE

No. 5

MONDAY, JULY 7, 1947

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

REPORT TO THE HOUSE

TUESDAY, July 8, 1947.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee had referred to it the following matters, namely:

(*a*) Annual Report of the Canadian National Railways for the year ended December 31, 1946.

(*b*) Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1946.

(*c*) Annual Report of The Canadian National Railways Securities Trust for the year ended December 31, 1946.

(*d*) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1946.

(*e*) Report to Parliament of the firm of George A. Touche and Company, auditors, for the year ended December 31, 1946.

(*f*) Financial Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the year 1947.

Your Committee held nine meetings in the course of which the said Reports were severally examined and unanimously adopted.

The Report of the Railway System disclosed a net income deficit of $8,961,570.49. Railways traffic continued to move in heavy volume but the continual increase in operating costs brought about by increases in the rates of pay and in the price of material prevented the railway from earning its full interest charges. Net income available for the payment of interest was $35·7 millions whereas the interest due to the public and to the Government was $44·6 millions. The financial budget of the railway system for the calendar year 1947 forecasts an income deficit of $31 millions, and the net requirements on capital account to be $46,723,000, including $41,500,000 for new equipment. The budget was approved.

The report of the West Indies Steamships disclosed a new income surplus of $1,302,051.63. Also that on completion of arrangements now in hand the Company will own ten vessels with a total deadweight of 56,075 tons, comprising two reconditioned "Lady" ships, three new diesel powered cargo ships, and five modern "Park" type ships. The financial budget for the year 1947 forecasts a net income surplus of $720,000, and the net requirements on capital account to be $3,589,900. The capital budget will be financed from the Vessel Replacement Fund of the Company. The budget was approved.

Trans-Canada Air Lines reported a deficit of $1,115,256 resulting from the 1946 operations. Mr. Symington, President of T.C.A., explained at considerable length the difficulties the Air Lines had to contend with last year. Costs were higher, training and development requirements were extensive, routes and services were expanded, and new types of aircraft were adopted. He also announced his impending retirement from the presidency, which information was received by your Committee with regret.

The work of your Committee was greatly facilitated by the information and explanations furnished by Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways System, of Mr. H. J. Symington, K.C., C.M.G., President of Trans-Canada Air Lines, and of their officers who gave evidence, and your Committee desires to express its appreciation therefor.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

MINUTES OF PROCEEDINGS

House of Commons,

Monday, 7th July, 1947.

The Sessional Committee on Railways and Shipping, owned, controlled and operated by the Government, met this day at 10.30 o'clock a.m. The Chairman Mr. S. M. Clark, presided.

Present: Messrs. Clark, Emmerson, Harkness, Hazen, Jackman, McCulloch (*Pictou*), McLure, Reid and Warren.—9.

The Chairman tabled a statement covering Hotel Operations for a number of years, as requested by Mr. Nicholson.

It was agreed that this statement be embodied in the Minutes of Proceedings and Evidence of the Committee.

Consideration was given to the draft of the Third Report of the Committee.

On motion of Mr. Reid,

Resolved: That the Third Report as drafted be adopted;

Ordered: That the Chairman present the said Third Report to the House of Commons.

The Chairman stated that the Report would be presented on or about Tuesday, 8th July next.

The Committee adjourned *sine die.*

T. L. McEVOY,
Acting Clerk of the Committee.

ACCOUNTING DEPARTMENT—CANADIAN NATIONAL RAILWAYS

HOTELS

Net Income or *Deficit* after Expenses and Taxes

Montreal, May 15, 1947

—		Capital Cost Dec. 31, 1937	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	Capital Cost Dec. 31, 1946
Chateau Laurier	$	8,669,832.66	171,684.97	168,293.51	227,956.63	395,119.92	405,744.00	379,432.39	453,587.68	515,515.15	557,672.41	383,036.48	8,981,702.31
Room occupancy	%	....	34·5	29·9	50·1	80·8	74·5	77·2	79·1	81·4	83·6	84·0	
Prince Arthur	$	1,185,504.98	24,858.64	19,402.10	9,627.79	2,442.84	20,232.68	4,971.81	17,506.11	36,367.14	46,408.30	47,819.30	1,194,455.98
Room occupancy	%	....	62·0	51·0	41·0	64·0	48·0	52·0	59·0	69·0	78·3	84·6	
Minaki Lodge	$	1,089,834.37	817.17	1,890.73	4,562.86	5,584.05	7,388.98	21,887.31	Closed	Closed	Closed	20,286.00	1,105,188.44
Room occupancy	%	....	63·2	62·5	62·0	37·2	70·2	77·0				82·5	
Fort Garry	$	2,904,267.50	*16,520.02*	*18,413.50*	*15,324.02*	*31,105.46*	8,302.39	25,331.33	82,116.60	132,613.57	163,862.80	111,128.04	2,941,914.68
Room occupancy	%	....	47·2	48·9	40·8	50·7	62·6	60·4	71·0	80·3	89·7	89·5	
Prince Edward	$	522,604.94	*19,769.20*	*8,021.21*	*4,418.07*	2,340.13	*4,082.94*	4,689.45	24,114.67	23,458.20	26,503.00	6,878.48	538,045.17
Room occupancy	%	....	36·2	34·5	38·0	66·2	58·1	61·0	72·0	73·0	77·0	76·0	
Macdonald	$	2,264,903.34	31,601.51	26,338.25	9,204.16	*347.05*	3,825.65	77,713.86	178,625.76	147,239.27	132,381.90	101,892.01	2,298,720.95
Room occupancy	%	....	38·8	42·9	44·5	76·5	67·6	86·8	93·0	91·7	92·1	93·1	
Jasper Park Lodge	$	2,627,070.05	26,214.17	49,467.21	57,130.29	41,123.49	50,090.86	*64,544.80*	Closed	Closed	Closed	114,085.63	2,749,591.46
Room occupancy	%	....	44·9	49·3	50·7	56·4	62·9	44·5				82·3	
Bessborough	$	3,567,584.06	*19,546.95*	*24,056.59*	*18,960.64*	13,312.77	*9,750.70*	2.17	56,758.22	114,309.94	131,643.07	145,303.07	3,566,080.71
Room occupancy	%	....	15·7	20·1	23·7	40·3	33·9	42·3	54·2	63·3	71·3	79·0	
Pictou Lodge	$	199,456.21	*40.17*	331.02	838.32	*6,507.62*	170.69	*2,917.80*	Closed	Closed	Closed	1,956.89	215,577.87
Room occupancy	%	....	41·1	40·0	30·9	47·0	67·3	48·5				70·3	
Nova Scotian	$	2,447,745.50	7,493.49	14,549.59	34,461.56	84,859.14	108,786.49	128,245.14	229,567.08	223,327.58	222,448.90	139,946.71	2,491,443.83
Room occupancy	%	....	44·1	46·5	75·8	89·1	94·7	95·9	94·7	94·0	94·5	87·3	
The Charlottetown	$	856,708.74	*6,643.18*	*3,367.36*	*2,708.29*	*4,636.14*	792.61	*5,087.44*	19,381.74	23,184.44	32,343.95	29,750.02	863,682.74
Room occupancy	%	....	13·0	16·0	16·0	28·0	28·0	31·0	41·0	45·0	50·0	60·0	
Total	$	26,335,514.35	200,150.43	226,013.75	302,363.59	502,186.07	591,500.71	569,723.42	1,061,457.86	1,216,015.29	1,313,264.33	1,102,082.63	26,946,404.14

Deficits in Italics.

SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

FRIDAY, APRIL 16, 1948

MONDAY, APRIL 19, 1948

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1947)

WITNESSES:

Mr. R. C. Vaughan, C.M.G., Chairman and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

ORDERS OF REFERENCE

WEDNESDAY, April 14, 1948.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of Members, the said Committee consist of Messrs. Bourget, Chevrier, Clark, Emmerson, Fulton, Gibson (*Comox-Alberni*), Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot, Reid and Warren.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 15, 1948.

Ordered,—That the Report to Parliament of George A. Touche & Company, Auditors of the Canadian National Railway System, for the year ended December 31, 1947, tabled this day, be referred to the said Committee.

Ordered,—That the Annual Reports for 1947 of the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Canadian National Railways Securities Trust, tabled on April 12, 1948, and the budget of the Canadian National Railways and Canadian National (West Indies) Steamships Limited for 1948, tabled on April 14, 1948, be referred to the said Committee, together with the following estimates for 1948-49:

Vote 502—Maritime Freight Rates Act, Canadian National Railways;

Vote 503—Maritime Freight Rates Act, Railways other than Canadian National;

Vote 557—Prince Edward Island Car Ferry and Terminals, Deficit 1948;

and that the said Votes be withdrawn from the Committee of Supply to which they were referred on March 9, 1948.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, April 16, 1948.

Ordered,—That the said Committee be given authority to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 is suspended in relation thereto.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Ordered,—That the said Committee be empowered to reduce its quorum from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

Attest

R. T. GRAHAM,
Deputy Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, April 16, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be given authority to print from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That it be granted leave to sit while the House is sitting;

3. That it be empowered to reduce its quorum from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

Nota.—Concurred in this day.

MINUTES OF PROCEEDINGS

House of Commons,

Friday, April 16, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock.

Members present: Messrs. Bourget, Chevrier, Clark, Emmerson, Hlynka, Jackman, Lafontaine, McCulloch *(Pictou)*, McLure, Moore, Mutch and Warren.

The Clerk invited nominations for the position of Chairman.

On motion of Mr. McCulloch, seconded by Mr. Emmerson, Mr. S. M. Clark was elected chairman.

Mr. Clark thanked the members of the Committee for his election which he deemed an honour.

On motion of Mr. Emmerson, seconded by Mr. Lafontaine, Mr. McCulloch *(Pictou)* was elected Vice-Chairman.

The Committee proceeded to discuss its procedure. A suggestion to increase the number of copies of its printed evidence was left in abeyance.

On motion of Mr. Lafontaine,

Resolved,—That the Committee ask leave to print 500 copies in English and 200 copies in French of it minutes of proceedings and evidence.

On motion of Mr. Warren,

Resolved,—That the Committee be empowered to sit while the House is sitting.

On motion of Mr. Hlynka,

Resolved,—That the House be asked to reduce the quorum from 12 to 8 members.

It was agreed to hold two meeting on Monday next at 11 and 4 o'clock to consider the annual report of the Canadian National Railways (1947) on which occasion the officials will be heard.

Two meetings were also tentatively set for the following Tuesday.

The chairman reminded the members that all relevant reports will have been distributed by Monday next.

At 10.30 o'clock, the Committee adjourned until Monday, April 19, at 11 o'clock in Room 429.

MONDAY, April 19, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 o'clock. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Chevrier, Clark, Emmerson, Fulton, Gibson (*Comox-Alberni*), Hlynka, Jackman, Lafontaine, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson and Reid.

In Attendance:

From the *Canadian National Railways*: Messrs. R. C. Vaughan, C.M.G., President; N. B. Walton, C.B.E., Executive and Vice-President; T. H. Cooper, Vice-President and Comptroller; S. H. May, Assistant and Comptroller; N. J. McMillan, General Counsel, Law Department; W. S. Thompson, C.B.E. Director, Public Relations, Publicity and Advertising.

From the *Department of Transport*: Mr. J. C. Lessard, Deputy Minister; Mr. F. T. Collins, Secretary; Mr. W. A. Thorton, Railway Auditor; Mr. N. C. Allen, Administrative Assistant.

The Chairman welcomed Mr. Vaughan and his officials and the committee began the consideration of the annual report (1947) of the Canadian National Railways.

Mr. R. C. Vaughan was called, heard and examined.

He was assisted by Messrs. Cooper and Walton.

At 1 o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock. Mr. S. M. Clark, chairman, presided.

Members present: Messrs. Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Hazen, Hlynka, Jackman, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson and Reid.

In Attendance: Same officials as listed at the morning session. Also Mr. G. B. Isnor, M.P.

The Committee resumed its consideration of the annual report (1947) of the Canadian National Railways.

Messrs. Walton and Cooper gave information requested at the morning sitting. respecting car mile per car day and maintenance of the Chateau Laurier.

Mr. R. C. Vaughan was recalled and further examined.

At 6 o'clock, the Committee adjourned until eleven a.m. Tuesday, April 20.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

April 19, 1948.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The Chairman: Gentlemen, we have a quorum. First of all I should like to welcome Mr. Vaughan and his officials here on behalf of the committee. I know we are always pleased to have them here. Whether it is an ordeal for them I cannot say; but we are pleased to have them back with us again.

Probably we should follow the procedure of the past and have Mr. Vaughan make a few remarks and read his report; following that we will have some discussion generally before going into the financial statements. I will ask Mr. Vaughan to take over now.

Mr. R. C. Vaughan, C.M.G. (President, Canadian National Railways): Thank you, Mr. Chairman. We are glad to be here again and we will do our best to give the members of the committee all the information that they desire. I shall now proceed with the annual report.

Montreal, March 10, 1948.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir: The following report is submitted of the operations of the Canadian National Railways for the calendar year 1947.

The magnitude of the work carried on year after year for the people of Canada by the System, in all its branches, and its importance as a primary factor in the national economy, were again demonstrated in 1947, when the Railway handled the heaviest volume of peacetime traffic in its history. The number of tons of freight carried, 86,221,279 tons, was nearly double the tonnage of 1939 and was even greater than that of any of the busiest years of the war.

This vast work was accomplished in spite of the handicaps caused by the continent-wide shortage of car equipment and was made possible by close attention to operating performance and by the co-operation of shippers. Maximum loading requirements introduced during the war were continued. Gross and net train loadings, the average carload and freight car miles per day were improved as compared with 1946 or any year before the war.

The business of the Canadian National Express and the Canadian National Telegraphs was greater than in any other year. The Company's twelve hotels continued to be operated at high levels of patronage.

The Company's property was maintained according to safety standards and some progress was made in carrying out repairs and renewals to equipment which had been deferred because of shortages of labour and materials. There is still, however, a backlog of deferred maintenance.

The following is a summary of the financial returns. The full income statement appears on the opposite page.

	1947	1946
Operating revenues	$438,197,980.00	$400,586,025.89
Operating expenses	397,122,607.00	357,236,718.29
Net operating revenue	$ 41,075,373.00	$ 43,349,307.60
Taxes, equipment rents, and other income accounts	13,136,222.82	7,629,780.68
Available for payment of interest	$ 27,939,150.18	$ 35,719,526.92
Interest on bonds held by the public	23,821,909.61	23,358,514.18

That is to say we have paid all the interest on the bonds held by the public.

Available for payment of government interest	$ 4,117,240.57	$12,361,012.74
Government interest	20,002,434.85	21,322,583.23
Deficit	*$15,885,194.28*	*$ 8,961,570.49*

Gross Revenues for 1947 were $438,197,980. This amount was only a fraction below the revenues of 1943 and 1944, when wartime traffic was at its peak.

Passenger Revenues amounted to $43,017,690, a decrease of $7,110,533 as compared with 1946 and of $26,758,567 as compared with the wartime peak, but an increase of $25,200,570 over 1939. While there was a reduction in passenger traffic as a whole in 1947, holiday travel increased. The Railway did its part in promoting the tourist industry and took full advantage of every opportunity to procure its full share of this increasing business.

Freight Revenues amounted to $342,582,003, an increase of $42,268,804 over 1946 and of $17,682,280 over the wartime peak year.

Approximately $21,000,000 in freight revenue resulted from orders of the Interstate Commerce Commission affecting the United States lines of the System, followed by related increases in Canada authorized by the Board of Transport Commissioners in respect of international traffic and competitive import and export traffic through Canadian ports. As a temporary measure, the Interstate Commerce Commission granted two increases effective July 1, 1946; one of 6 per cent and the other of 5 per cent. These were cancelled and superseded by a 25 per cent increase as from January 1, 1947. As of October 13, an interim increase of 10 per cent over the rates established in January was authorized. An additional interim increase of 10 per cent was authorized to take effect on January 5, 1948. As these two interim increases are imposed on the previous 25 per cent in combination they are equal to a second 25 per cent increase over the rates in effect before July, 1946, making a 50 per cent increase in all. Applications by the United States carriers for still further increases are now under investigation by the Interstate Commerce Commission. It will be understood that the percentages referred to are nominal. On some commodities lower increases were granted, the increase applied to all freight averaging 39·1 per cent.

In the same way the so-called 30 per cent increase asked for in Canada would average 20 per cent if applied to all freight;—

> I may say, incidentally, that this co-called 21 per cent only amounts to 13½ per cent over-all.

—so it will be seen that the application which the Board of Transport Commissioners now has before it from Canadian railroads is for an increase amounting to only half of that already granted to United States railroads.

Hearings on the application by the Railway Association of Canada on behalf of all Canadian railways for an increase in freight rates proceeded throughout the year to December 17, since when the case has been under review by the Board of Transport Commissioners.

> This report, of course, was prepared before the board rendered its decision.

During the progress of the hearings and following the modification of price control regulations, the Board disallowed a special application seeking authority to increase certain competitive rates in advance of decision on the main application. It is the view of the directors that the Railway should be compensated by increases in rates over and above any now to be granted, to the extent that costs of wages and materials have advanced beyond the levels prevailing at the time of filing the current application.

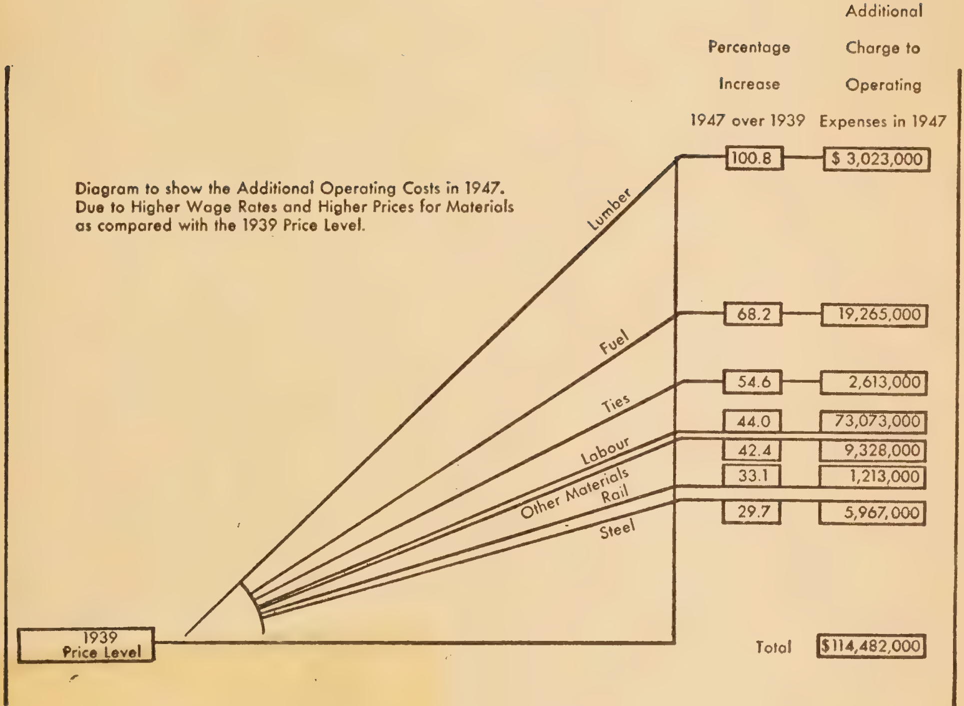


Diagram to show the Additional Operating Costs in 1947. Due to Higher Wage Rates and Higher Prices for Materials as compared with the 1939 Price Level.

It is inevitable that with increased business there should be increased expense, but what the railways find burdensome are the increased costs not related to additional traffic but brought about solely by increased wage rates and increased prices for material. For the Canadian National Railways these additional operating costs due to higher wage rates and higher prices for materials, 1947 over 1939, amounted to $114·5 millions, of which $73·1 millions was for labour and $41·4 millions for material.

It will be informative to show in more detail the increased costs which have taken place.

Labour

1947 Number of hours worked	251,110,294	
Average hourly rate	$0.952	
Labour charged to operating expenses		$239,057,000
1939 Number of hours worked	170,187,536	
Average hourly rate	$0.661	
Hours worked in 1947 at the 1939 average rate		165,984,000
Increase		$ 73,073,000–44·02%

The average compensation per employee in 1947 was $2,382.31. In 1939 it was $1,566.05. Since the beginning of the war, therefore, the average compensation has increased by $816.26 per annum per employee.

Materials

	Unit	December 1939 price	December 1947 price	Per cent increase
Ties, softwood	each	$0.59	$ 1.35	128.8
Ties, hardwood	each	0.72	1.45	101·4
Rail	gross ton	47.52	71.37	50·2
Axles, freight car	cwt.	4.21	5.67	34·7
Couplers	each	70.47	110.81	57·2
Steel castings	cwt.	11.07	18.79	69·7
Steel plates, firebox	cwt.	3.10	4.54	46·5
Tires, locomotive	cwt.	5.83	8.86	52·0
Car decking	mfbm	29.00	68.50	136·2
Car sheathing	mfbm	33.00	117.00	254·5
Bridge timber	mfbm	18.00	62.00	244·4
Coal	ton	4.09	7.50	83·4

The significance of an increase of $3.41 a ton for locomotive coal may perhaps be better realized when it is stated that the Railway used 6,872,000 tons in 1947. The average cost throughout the year for all materials used by the Railway was 50·65 per cent higher than in 1939. Apart from the impact these higher prices have on the costs of operation, they necessitate an enlargement of the Railway's working capital. Materials and supplies on hand at the year-end were valued at $62,945,537 as compared with $28,040,296 at December 31, 1939. Some portion of this increase reflects the increased traffic volume.

Operating Expenses in 1947 totalled $397,122,607. The usual provision was made for depreciation on rolling stock, the charge for the year being $16,920,929. Pension costs were $10,502,481. Eight million dollars was taken from Deferred Maintenance Reserve and credited to expenses. The amount remaining in this reserve at the end of the year was $25 millions.

Employees numbered 108,440 and their payroll for the year was $258,337,684. Current applications for wage increases and changes in rules in Canada alone would, if granted, add about $92,000,000 to the operating expenses of the Canadian National Railways. These applications have been declined and are now before boards of conciliation.

Operating Performance. Operating statistics all indicate a year of intense activity. Freight trains operated over 44 million miles and the tonnage movement exceeded 35,880 million net ton miles. Passenger trains operated 23⅓ million miles. Detailed statistical information is given on page 27 of this report.

Net Operating Revenue (revenues less expenses) was $41,075,373. In 1940, with $190 million less revenue, the Railway earned $4 million more net.

Taxes. The provision made in the accounts for taxes increased $2,765,075, mainly attributable to a settlement of claims by the cities of Halifax and Saint John, resumption of provincial taxes in Ontario and Quebec on the expiration of the wartime agreement with the Federal Government, and United States retirement and unemployment taxes, which were assessed at a higher rate on an increased payroll.

Hire of Freight Cars increased $2,604,486, attributable to heavier traffic, severe weather in the early part of the year, and an increase in the per diem rate from $1.15 to $1.50.

Hotel Operating Profit at $1,290,719 was $188,637 better than in 1946, due principally to the increased rates for rooms and meals, and capacity business at Jasper Park Lodge.

Interest on Bonds held by the public increased $463,395 and Government interest decreased $1,320,149, the net change being mainly due to refinancing at lower interest rates during the past two years.

The Net Income Deficit for the year was $15,885,194.

Capital Expenditures

The capital expenditures during the year, other than for new equipment, amounted to $11,257,154, details of which are given on page 19.

The new line of railway in Quebec from Barraute northerly towards Kiask Falls is about one-half completed and this section should be sufficiently completed for traffic by December 1, 1948.

The construction of the International Aviation Building above track level adjoining the Montreal Central Station is proceeding according to plan. The site has been cleared, the excavation in rock for the foundation columns is approaching completion, the steelwork, now being erected, should be completed by May 1948, and the contract for the building itself has been let. Work is proceeding on the construction of steam-heating plant to serve the Central Station and the Aviation Building, with provision for the future requirements of the whole development in this area.

The capital expenditures on new equipment delivered in 1947 amounted to $11,806,427 and included 25 diesel electric locomotives, 6 steam locomotives, 1,503 freight cars and 2 coaches. At the end of the year there remained to be delivered 28 coaches, 10 baggage cars and 10 mail and express cars, being the balance of the 1946 program; 23 diesel electric locomotives, 4,296 freight cars, and 50 express refrigerator cars, being the balance of the 1947 program.

FINANCE

The capital debt of the railway increased $23,369,826 during the year, details of which are given on page 21. In brief, the increase was to finance the 1946 capital budget and to provide Trans-Canada Air Lines with $18 million additional capital.

GENERAL

The new car ferry *Abegweit* built at Sorel for the service across Northumberland Strait between Borden, P.E.I., and Cape Tormentine, N.B., was taken over for operation on August 11. This vessel, the heaviest ever constructed in Canada, is believed to be the world's largest and most powerful ice-breaking car ferry. She is a quadruple screw motorship, powered by sixteen diesel engines operating two propellers at the stern and two at the bow, and has a service speed of approximately 16 knots. With a gross tonnage of 6,694 tons, the *Abegweit* has a carrying capacity of 19 railway cars, 60 automobiles and 950

passengers, as against the 16 railway cars, 41 automobiles and 800 passengers carried by the ss. *Charlottetown* which she replaces.

A contract was entered into with Yarrows Limited, of Esquimalt, B.C., for the construction of a twin-screw passenger and cargo vessel to replace the former ss. *Prince George*, destroyed by fire. The new vessel being built to accommodate 294 first class and 28 second class passengers, will have a cargo capacity of 400 tons and is designed to carry automobiles. Three hundred and fifty feet in length, with a speed of 18 knots, the vessel's gross registered tonnage is 5,700. Launched on October 6, 1947, the vessel was named after its predecessor, the *Prince George*. The main engines (oil-burning) and boilers were installed late in November and the fitting-out period has progressed satisfactorily. It is anticipated that the vessel will be available for service in the early summer, operating from Vancouver to Skagway, Alaska, in summer and to Ketchikan, Alaska, in winter. The *Prince George* is the largest vessel of its type ever constructed on the British Columbia coast.

In 1947 the Canadian National Express handled 20,548,605 shipments, an increase of 1,610,898 or 8·51 per cent over 1946. This was the largest number handled in any year.

Nearly 13,000,000 messages were transmitted by Canadian National Telegraphs, the largest number on record. Business in other services, such as radio programme networks and private leased wires, continued at a high level.

On September 18, the centenary of the Montreal and Lachine Rail Road, now a part of the Canadian National System, was celebrated in the two cities it has linked since 1847. The ceremonies, in which representatives of the Dominion and Provincial Governments, the municipalities of Montreal and Lachine and the Canadian Railroad Historical Association took part, included the unveiling of a bronze plaque in Bonaventure Station by His Excellency The Governor General and of a commemorative cairn at Lachine by a representative of the Premier of Quebec.

Under the terms of the tri-party agreement between the Canadian National, Canadian Pacific and Northern Alberta Railways, dated June 28, 1946, the Canadian National abandoned 12·21 miles of line between Trelle Junction and Morinville, in the province of Alberta, and began joint use of 20·24 miles of the Northern Alberta Railways line between N.A.R. Junction and Morinville on September 1, 1947.

The Research and Development Department continued its investigations of mineral areas, with particular attention to new mining developments. New projects undertaken included surveys of forest and fisheries resources. Studies of industrial localities were continued and an important aspect of the year's work was related to the reoccupation and adaptation to industrial use of wartime plants and structures.

Approximately 73,000 immigrants entered Canada during the year as independent settlers having resources enabling them to become established as workers in the primary industries, or as relatives nominated by Canadians. The Railway's Department of Colonization and Agriculture assisted in the movement and is organized to play an even greater part as immigration grows with the availability of shipping space.

Attention is once more directed to the lack of equality of competitive conditions as between rail and highway transport.

The directors express their appreciation of the loyalty and devotion to duty of the officers and employees throughout the System during the year.

There is a note at the bottom which says:

The results of 1947 operations of Trans-Canada Air Lines in both domestic and overseas services are contained in a separate report to Parliament as required by The Trans-Canada Air Lines Act, 1937.

That, gentlemen, is the narrative concerning the report.

The CHAIRMAN: Gentlemen, do you wish to start on page 4 and discuss the consolidated income account? Shall we take the report page by page? The result of 1947 operations is found on page 4. Are there any questions with regard to that?

Mr. NICHOLSON: Mr. Chairman, in connection with the item found at the bottom of the page, "Interest on government loans, $20,002,434.85," I wonder if the president could make a statement regarding the progress which has been made in persuading the government to give some relief in connection with capital charges?

Mr. VAUGHAN: All I can say about that is that I think the matter is still under consideration. Probably Mr. Chevrier could tell you something about that.

Hon. Mr. CHEVRIER: I could not add much more than I said in the House the other evening. The question of income bonds has not been up for study since—I think you asked the question at the last hearing—other than in a general way. The question of recapitalization is one which deserves serious consideration and Mr. Nicholson should have an idea of the reception it would have in the House of Commons following the debate of the other evening. There is certainly not unanimity on the question. Of course, what did delay any further serious consideration of either income bonds or capitalization was the freight rates investigation, and until that has been completed it was thought that no further consideration could be given to either of these two items.

Mr. NICHOLSON: When the matter was up in 1946—I am looking at the proceedings on page 27—the president was asked by Mr. Jackman as to what sort of adjustment would be necessary to give us a satisfactory position with respect to the Canadian Pacific and first-class railways in the United States, and the president said, "We would say that we should have a proper set-up, one which would make our fixed charges not more than 25 per cent of what they are today."

Do I understand that if we had that sort of set-up we would not have had any deficit at all last year; that the deficit of about $15,000,000 would not have existed if we had the sort of set-up that you think would be fair?

Mr. VAUGHAN: We still think our interest charges are entirely too high. If you look at the C.P.R. annual report you will find interest charges $15,000,000; ours come to nearly $44,000,000. It is a big handicap for us to begin with. However, there are a lot of matters which no doubt have to be considered in connection with the adjustment.

Mr. NICHOLSON: If your interest charges were a quarter of what they were last year there would not have been any deficit?

Mr. VAUGHAN: Oh, no, we paid all the interest charges; $24,000,000—due on securities in the hands of the public and we paid $4,000,000 of the government interest.

Mr. NICHOLSON: In addition to pressing for increased freight rates would it be one of the responsibilities of the board of directors to press the government for a more satisfactory adjustment?

Hon. Mr. CHEVRIER: I can say that they have been pressing.

Mr. VAUGHAN: We have not been backward in that respect.

Hon. Mr. CHEVRIER: If Mr. Nicholson and Mr. Jackman could agree on this thing, perhaps the government could give consideration to bringing something down in the House.

Mr. JACKMAN: It is so difficult to know where the government stands.

Hon. Mr. CHEVRIER: You agree and you will find out where we stand.

Mr. FULTON: Is there any statement available to the members of the committee, in respect to the matter which has just been mentioned?

Hon. Mr. CHEVRIER: Mr. Vaughan, I believe, made a submission in 1947. I think it is available.

Mr. FULTON: Could you refer us to that?

Hon. Mr. CHEVRIER: If you will look at the 1946 proceedings, you will find, in the minutes of evidence, practically all that is required.

Mr. REID: Is there an estimate of what the actual saving would be?

Hon. Mr. CHEVRIER: If the income bonds were accepted in lieu of the notes, I think it was estimated the saving would be about $12,000,000.

Mr. COOPER: In 1947, it would be $13,700,000.

Mr. HLYNKA: Would you have figures showing the operating loss or profit of the C.N.R. east of Fort William and also west of Fort William for the past year?

Mr. VAUGHAN: We could file a statement showing that.

Mr. HLYNKA: That is one of the contentious points. I should also like to ask for an explanation of the statement made by the president concerning the 21 per cent increase. It has been stated there was only an over-all increase of 13½ per cent.

Mr. VAUGHAN: That is correct.

Mr. HLYNKA: Would you explain that?

Mr. VAUGHAN: It is due to the fact there are so many exempted commodities. There was no increase granted on grain, domestic or export, from western Canada. This forms quite a large proportion of the business of both railways. Then, on coal, there is a specific increase of 25 cents which is, of course, a very small percentage of the coal rate. After all these exemptions and specific rates are taken into account, the over-all increase on all the traffic we handle is only 13½ per cent.

Mr. JACKMAN: The fact there is no increase on grain is understandable, but why was there such a small increase on coal? What is the philosophy behind that?

Mr. VAUGHAN: That is the increase which was granted by the Board of Transport Commissioners. They thought it was fair, having regard to all the circumstances.

Mr. JACKMAN: It bore heavily on the cost of living, is that the reason?

Mr. VAUGHAN: I could not say as to that. I believe the board spent a great deal of time in preparing its judgment. I do not know how many people will read it.

Hon. Mr. CHEVRIER: I think the answer to your question is that the railways did not apply for a greater increase.

Mr. VAUGHAN: The application we made was for 25 cents a ton because we felt that was all we should apply for, since the United States railways had made a similar application.

Mr. MUTCH: I think the president has said that the increase is an over-all increase in freight revenue of 13 per cent. However, the fact remains that there is a minimum increase of 21 per cent imposed on the commodities which are not exempt?

Mr. VAUGHAN: Yes, that is a correct statement.

Mr. REID: I notice that the passenger revenue is 9.8 per cent as compared with the 78 per cent from freight. I was wondering what the comparison would be as to expenditures on freight and passenger service?

Mr. VAUGHAN: That question, Mr. Reid, has been raised at different times. As you know, the railroads contended before the Board of Transport Commissioners that those charges could not be accurately separated. The railways

did make an attempt to do it and I think some figures were given to the Board of Transport Commissioners, but they were not much more than guesses.

Mr. REID: What I have in in mind is this; we meet here every year and, according to this balance sheet, we will have to meet deficits every year. I know it is expensive to keep these trains running and they are up against stiff competition from cars, from automobiles and aeroplanes. I am just wondering whether the time has not come when we should have a clear picture as to what it is costing to keep passenger trains and freight trains running. It seems to me that freight is carrying the burden. I may be wrong. I believe the deficit comes largely from the passenger operations and that you are loading that on to the freight. We should have a clear picture of that.

Mr. VAUGHAN: I think it is true, Mr. Reid, that taking the over-all passenger picture into account we probably lose money in the operation of passenger trains. On some trains we are making money, and on others we are losing money. We do not think we are running any surplus passenger trains.

Mr. REID: It is for that reason I think the freight should be hauled into British Columbia over your line and the passenger traffic should be routed over the Canadian Pacific. There is this difference in the grades.

Mr. FULTON: What about the areas which are not served by the Canadian Pacific?

Mr. REID: We will have to make an agreement on that. Why should we be penalized because the Canadian Pacific took the wrong grade. It is for that reason there is no mountain differential on the Canadian National. I am taking a stand on it. I say the passengers should be carried by the Canadian Pacific and the freight should be hauled by the Canadian National.

Mr. NICHOLSON: I understand that the Canadian Pacific over the years, has given a breakdown showing the revenue from freight in the different regions?

Mr. VAUGHAN: The only time figures were given, so far as I am aware, was before the Board of Transport Commissioners. An attempt was made at the request of the board and the opposing counsel, to make a separation. Those figures were given to the board. I do not remember the figures, but they will be in the evidence.

Mr. NICHOLSON: Have you your figures available, that is for the Canadian National?

Mr. VAUGHAN: Mr. Cooper has not got them here, but we will get them for you.

Mr. NICHOLSON: In connection with this item on government loans, what rate of interest is paid?

Mr. COOPER: It averages 2·9 per cent.

Mr. VAUGHAN: Some rates are higher than others. For instance, on these vested securities, that is the securities vested in England during the war and brought out here, we pay $3\frac{1}{2}$ per cent. Those are the securities for which we suggested income bonds should be taken.

Mr. COOPER: You will find all that information set out on page 19 of the report.

Mr. NICHOLSON: I understand the late Senator McGeer was very critical of the fact the Government charged its own public utility such a heavy interest rate. What negotiations have you had with a view to getting a lower rate?

Mr. VAUGHAN: We have been co-operating right along with the government and they have been adjusting these rates from time to time. The rate is now approximately 3 per cent which is considerably lower than it was at one time. We take that matter up continually with the Department of Finance, asking them to meet our views in connection with it.

Mr. Nicholson: What defence did you have in reply to Senator McGeer? What defence was offered by the government for such a large item each year in your balance sheet?

Hon. Mr. Chevrier: If you wanted to go into that question thoroughly. you would have to call the officials from the Department of Finance and ascertain why they insist on those payments.

Mr. Vaughan: Returning to those repatriated securities, as I understand it, the ruling from the Department of Justice says that the government could not accept income bonds except by an act of parliament, nor could the interest rate be reduced without an act of parliament.

Mr. Nicholson: How about Mr. Cooper, does he think these interest rates are fair in the light of present interest charges?

Mr. Cooper: On the repatriated securities, the rate is $3\frac{1}{2}$ per cent. First of all, we do not think there should be any fixed interest rate. For the last three or four years, $3\frac{1}{2}$ per cent has been in excess of the going rate.

Mr. Nicholson: You have made representations to the government?

Mr. Cooper: Yes, and we were told it would need an act of parliament to change the situation.

Mr. Nicholson: Acts of parliament are going through quite frequently. What is the trouble getting an act of parliament?

Hon. Mr. Chevrier: I answered that question a moment ago. I told you the government was of the opinion that, so long as the freight rates investigation was pending, it should not proceed to deal with this question; that is the answer.

Mr. Fulton: Mr. Chairman, I am afraid I am getting confused. I cannot reconcile the interest rate shown here on loans from the Dominion of Canada with the total shown in the Canadian National Railways Security Trust, where there are outstanding a large proportion of 6 per cent dominion notes. Are those loans advanced from time to time by the government, those dominion notes?

Mr. Cooper: All the securities which are held by the dominion government through the Security Trust are collateral securities. They do not carry a present fixed charge against the railway. They are only collateral securities for the loans which were transferred to the Security Trust in 1937. We are not paying interest on them.

Mr. Fulton: You are not paying 6 per cent interest on them?

Mr. Cooper: No. The loans on which we pay interest are those amounts set out on page 19, which amount to $689,000,000. The interest in 1947 was $20,000,000, and the average interest rate was 2·9 per cent. The securities which are held by the Security Trust are a different set of securities altogether. They represent old loans for deficits and for interest which were written off, so far as the railway is concerned, in 1937. They were transferred to the Security Trust. They are held there inactive, for certain reasons, but they are not currently an obligation of the railway system nor do they carry interest chargeable against the railway system.

The Chairman: Are there any further questions in connection with page 4?

Mr. McLure: There is a question in connection with the passenger revenue of $43,000,000. Is there a tax on all passenger rates at the present time, a government tax?

Mr. Vaughan: Yes, there is a tax. I do not recall what it is, but there is a tax which the purchaser has to pay. I believe it is 15 per cent.

Mr. McLure: Would that be included in this figure?

Mr. Vaughan: No, sir.

Mr. Cooper: That is revenue to the government, not revenue to the railway.

Mr. McLure: If the government was to remove that tax, but leave it for the benefit of the railway's passenger operation, what would it amount to, $7,000,000? Does the tax amount to about $7,000,000 now?

Mr. Cooper: Taking 15 per cent of $43,000,000, it would be something less than $7,000,000.

Mr. McLure: It is not included in the figure?

Mr. Cooper: No.

Mr. McLure: What about sleeping car and parlour car revenues?

Mr. Cooper: The breakdown of revenue is given in further detail on page 15. Sleeping car revenue is $3,176,000; parlour and chair car revenue amounts to $303,000. The $43,000,000 is for passenger fares. It does not include sleeping car or dining car revenue. It is not passenger train revenue, it is passenger fare revenue.

Mr. McLure: On that, there is a tax of approximately $7,000,000.

Mr. Cooper: If the tax were removed it might stimulate passenger traffic a little from which the railway would receive benefit.

Mr. Jackman: You did not ask for an increase in passenger rates at this recent inquiry?

Mr. Vaughan: No, sir, we have not asked for any increase.

Mr. Jackman: Why did you not ask for an increase which would, at least, be commensurate with the 15 per cent tax which the government is collecting? It would seem the traffic would stand that rate?

Mr. Vaughan: We thought we would deal with one thing at a time. We have had enough difficulty with the freight rates.

Mr. McLure: All you would have to ask would be for the government not to charge the tax but let you charge it and retain it as revenue for your passenger operations?

Mr. Vaughan: It is a tax assessed by the government. If the public did not have to pay it, we would not get the benefit of it.

Mr. Mutch: What is the difference between doing that and paying $7,000,000 as a deficit? It comes out of the same pocket.

Mr. Jackman: How much would you estimate the tax to be in round figures?

Mr. Cooper: On passenger fares, about $7,000,000.

Mr. Jackman: And on sleeping cars, the total tax?

Mr. Cooper: It would seem to be somewhere between $1,000,000 and $8,000,000.

Mr. Jackman: Are there other taxes on shipping which enter into our calculations? There is the sales tax which enters into all costs, of course?

Mr. Vaughan: Yes, it does. This is the only direct tax on passenger fares?

Mr. Jackman: Is there a tax on T.C.A.?

Mr. Cooper: There is a tax on domestic T.C.A. transportation. I doubt whether there is a tax on the overseas traffic.

Hon. Mr. Chevrier: The tax applies also on motor buses and so forth, all transportation.

Mr. Jackman: Returning to this increase on coal, is this 25 cents a ton all the railroads have received since they last received an increase?

Mr. Vaughan: No, I think they have received more than that. I think their first request was for 25 cents a ton. They have had subsequent increases since.

Mr. JACKMAN: Are you able to say what the actual cost is for hauling a car of coal over the line? Are you able to break that down?

Mr. VAUGHAN: I think perhaps we could do that. It would require a little accounting to do it. It depends, of course, on the part of the country in which the coal is located; the grades and the number of cars we can haul over those grades; the distance the coal moves and so on.

Mr. JACKMAN: As a major commodity item, could you say whether or not the railway is making or losing money on the hauling of coal?

Mr. VAUGHAN: I do not think I could say that, offhand, except to say that, in a general way, we are losing money on almost everything we handle if all the charges are taken into account.

The CHAIRMAN: Are there any other questions on page 4?

Mr. NICHOLSON: I do not think the revenue from mail is up very much. The Canadian Pacific, in its report, does not give the revenue received from mail. Have you any idea whether you are getting a fair proportion of the revenue from that source?

Mr. VAUGHAN: We take up with the Post Office Department, from time to time, the question of giving us an increased amount of mail. I believe our situation is improving.

Mr. NICHOLSON: What percentage of the amount of revenue paid by the Post Office Department is the Canadian National receiving?

Mr. VAUGHAN: We received an increase last year. The statement shows the increased revenue from mail in 1947 to be $307,000 of which $132,000 was on our United States lines.

Mr. NICHOLSON: Have you figures showing the percentage received by the Canadian Pacific? What percentage does the Canadian National receive?

Hon. Mr. CHEVRIER: The Canadian Pacific received around $4,000,000 and the Canadian National approximately $4,500,000, a little over 50 per cent.

Mr. VAUGHAN: According to the Canadian Pacific's last report, they received from mail $4,175,758. We show we earned $4,583,000 from mail. Some of that, of course, was on the United States lines. We have not got that broken down. We could handle more mail than we are handling. We have had this question before the Post Office Department from time to time. I think they are considering it. For instance, we do not get any mails between the east and Vancouver, the Canadian Pacific gets that mail.

Mr. NICHOLSON: You are not carrying any mail from Montreal to Winnipeg?

Mr. VAUGHAN: We carry some local mail, but most of the through mail between the east and the west is carried by the Canadian Pacific.

Mr. NICHOLSON: You are still negotiating to get your share?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: I imagine that is rather profitable mail to carry. I imagine the Canadian National should be able to carry it as well as the Canadian Pacific.

Mr. WALTON: We do have a mail contract between Toronto and Winnipeg.

Mr. NICHOLSON: But not between Montreal and Winnipeg?

Mr. WALTON: There is some closed mail; a mail car operates on our train No. 3 each day, Toronto to Winnipeg and return.

Mr. NICHOLSON: The Canadian National has well over 50 per cent of the mileage in Canada?

Mr. VAUGHAN: We have over 21,000 miles in Canada and the Canadian Pacific operates between 16/17,000 miles.

Mr. NICHOLSON: The Canadian National has 60 per cent of the mileage and therefore should be entitled to 60 per cent of the revenue.

Mr. VAUGHAN: We believe we ought to receive more mail. We are continually negotiating with the Post Office Department. As you will see from the report, we are improving our position.

Hon. Mr. CHEVRIER: The T.C.A. carries some proportion of the mail, too.

Mr. NICHOLSON: Do you know what proportion?

Mr. VAUGHAN: Their statement is here.

Hon. Mr. CHEVRIER: $3,000,000 approximately.

Mr. FULTON: The T.C.A. could not be said to be competing directly with the railway because it carries air mail.

Hon. Mr. CHEVRIER: It is a matter of dividing up the payments made by the dominion government in respect of the carriage of mail. The T.C.A. is a subsidiary of the Canadian National.

Mr. VAUGHAN: I do not think the T.C.A. mail revenue should be included in what the Canadian National receives.

Mr. MUTCH: It is a matter of apportioning what the government pays.

Mr. VAUGHAN: T.C.A. mail revenue in 1947 was $3,808,000.

Mr. NICHOLSON: I wonder if Mr. Cooper could work out the ratio of miles of railway and the ratio of the revenue the two companies are getting for mail? Could you do that and give us the information later?

Mr. COOPER: The Canadian National and the Canadian Pacific?

Mr. NICHOLSON: Yes.

The CHAIRMAN: Any other questions before we proceed?

Mr. JACKMAN: May I ask Mr. Vaughan why passenger revenues were down substantially last year? I assume wartime traffic, war personnel, was pretty well over in 1946?

Mr. VAUGHAN: The general passenger movement declined. The holiday and weekend traffic was not bad, but the ordinary day to day traffic showed a distinct falling off.

Mr. JACKMAN: Was that due to the loss of wartime traffic?

Mr. VAUGHAN: There are several reasons for it. I think one reason is the bus lines. They are getting more new buses. There are more private cars on the road than there were. People are not using railway facilities for passenger traffic as they did during the war.

Mr. MUTCH: On this point do you estimate that any considerable improvement could be made in that with the introduction of more modern equipment?

Mr. VAUGHAN: I doubt it. We are improving our equipment all the time trying to hold the business which we have.

Mr. MUTCH: Do you think that would be a substantial factor? During the war you were not able to do so but now you are able to bring your equipment up to date. Do you anticipate that will offset to any considerable degree the increasing popularity of bus and individual motor traffic?

Mr. VAUGHAN: It might in some cases and between some points, but generally speaking I do not think it will add a great deal to our revenue.

Mr. FULTON: Do you include there the speeding up of your passenger schedules? Mr. Mutch mentioned the improvement of equipment. What I am getting at is do you think if you are able to speed up your schedules considerably, which I understand potentially you are able to do, that would help to restore passenger traffic?

Mr. VAUGHAN: Have you reference to transcontinental trains?

Mr. FULTON: Yes, and the main points served by the transcontinental trains.

Mr. VAUGHAN: The transcontinental trains they are timed to depart from and reach destinations at convenient hours, to reach important places like Winnipeg, Saskatoon and Edmonton at convenient hours. We leave Montreal at night with a passenger train. We get to Winnipeg in the morning. We get to Saskatoon in the evening and to Edmonton the next morning and to Vancouver the next morning. There would not be much object in leaving Montreal later in the evening, and arriving at Vancouver at say 4 o'clock in the morning. It would upset the whole schedule from Montreal to Vancouver.

Mr. FULTON: You could cut 24 hours, or we will say 12 hours, off your transcontinental schedule. Some places might have to be inconvenienced a little, but do you not think it would help to restore passenger revenue?

Mr. VAUGHAN: I do not think we have got the population in Canada to warrant trains of that kind. If we had a large population like the United States it might be a different story, but after all we do not serve a very heavy population going across the country. In fact, we could carry more passengers than we are carrying at the present time. If we were going to take 24 hours off a train we would simply have to cut out a great many stops which we now have. We would arrive at Winnipeg, Saskatoon and Edmonton at inconvenient times, and I think we would lose more than we would gain.

Mr. REID: Of course, you have not tried that. Take the trip from the coast. I know if you want to go by plane you have got to book almost a month ahead of time. There are so many people coming to Ottawa, Toronto and Montreal from the Pacific coast. I know if you want to travel by air you have got to book one month ahead to get a seat. Why is it that traffic has increased there? You must have lost a percentage of that to them, probably not all. I do not agree with you about the inconvenient hour because if you travel by plane heaven knows you leave and land at any hour and still travel is increasing. I want to ask one question. If you had to could you not clip a great number of hours between here and Vancouver or New Westminster?

Mr. VAUGHAN: There would be no object in cutting the time between here and Vancouver unless we cut it 24 hours.

Mr. NICHOLSON: Twelve hours.

Mr. REID: I might say that I left here once ten hours late from Ottawa and I arrived on the dot right in New Westminster. It was a revelation to me. They clipped 10 hours off, picked up 10 hours.

Mr. WALTON: There is a distinct difference between making one trip under that condition and doing it day in and day out.

Mr. REID: I should like to know how many passengers from New Westminster and Vancouver are going down by the Great Northern and coming across to Toronto through the United States. To my knowledge I have met twelve at least who say that they enjoyed the trip and made it a little cheaper and almost a day faster. You say it cannot be done. You do not know whether it can be done.

Mr. VAUGHAN: We made a check on that situation. It is true there are passengers from Vancouver and New Westminster going east by the Great Northern. They go to Seattle.

Mr. REID: To save time.

Mr. VAUGHAN: I think some of them do it because it shows them something new. They have better equipment, that is quite true, and they make faster time although some we have talked to tell us they get a rather rough ride on these fast trains, but our passenger travel in Canada is an entirely different thing, of course.

Mr. REID: Do not talk about rough rides.

Mr. VAUGHAN: We have not got the population. Our passenger department is studying this situation all the time. We think we are losing enough money on passenger trains as it is now and, of course, as you know, under existing conditions if we put on a fast streamlined train equipment for one train would cost $1,000,000.

Mr. REID: I realize that.

Mr. WALTON: If we were going to speed up the service materially we would have to spend a lot of money on the track.

Mr. NICHOLSON: You are running two trains from Vancouver east an hour apart. Could you not run one of those as a fast train on an experimental basis to see what would happen?

Mr. WALTON: You have spoken of that before in this committee. We have developed it with our people and had them contact quite a large number of people, get a sample of opinion, and the morning departure from large cities is not favoured by the travelling public.

Mr. REID: Some day they will have a concrete highway right from coast to coast. I think the railways should be preparing for that because I maintain once we have that in Canada instead of compelling our people to go down through the United States you will have all kinds of buses the same as they have in the United States now. You are not preparing for that. Are we going to take the position forever we will not have a concrete highway just because it is going to take traffic from the railways? We might as well be candid. That is the chief reason we have not got it. The government would not admit that but everyone around parliament knows that. I think the C.N.R. should look ahead and start to modernize so that they will be able to compete. If the Great Northern can do it so can you.

Mr. MUTCH: Whether or not it makes sense the fact is that people, whether the six hours is worth anything to them or not, will stand very considerable amount of inconvenience to get some place in the middle of the night. I do not discount the fact that we like comfort in this country to a degree which may not be universal, but the fact remains that people fly. They leave at ungodly hours, three or four o'clock in the morning. They sit up often uncomfortably all night and arrive at equally inconvenient hours and try to do business that day without having had a night's sleep when in 12 or 14 hours longer in the summer time and perhaps more quickly in the winter time they could go by train. The fact remains that the idea of speed has popular appeal. I am inclined to think that the C.N.R. has not capitalized on that. It may not be sensible from a conservative point of view. The present vogue may be much more practical, more comfortable and more convenient, but I would be very much surprised if more people would not get up to catch a train or stay up to catch a train in the middle of the night to save six or seven hours than you are getting at the present time with your much more leisurely and comfortable trip.

Mr. VAUGHAN: It is interesting to get the two sides of the picture. Our passenger people periodically make a survey of the situation to get public opinion on it. We run our trains largely to meet the requirements of the public as expressed to us. There is no doubt it would be much nicer if we could run fast trains through to the coast but it would be a matter of tremendous expense, and we doubt very much if it would be warranted under existing conditions.

Mr. FULTON: Is it not a fact most of the expenditure would have to be made on the track, and if you had your track improved as I understand it you could cut some considerable time off were you permitted to do so by the Board of Transport Commissioners. Would not most of the expenditure have to be made on the track? If that is the case would it not be worth while doing that because I believe you could run with your present equipment on a good track with faster schedules. Am I not right?

Mr. VAUGHAN: The situation is a pretty difficult one to deal with. To run trains at 60, 70 or 80 miles an hour across the country you would have to spend a tremendous amount of money in improving our lines, straightening out curves. We have considered whether or not it would be warranted. We cannot see with the population of Canada as it is today that we would be justified in spending millions and millions of dollars in getting our road in shape to take 24 hours off our trains from Montreal to Vancouver. It would be a colossal undertaking to do it.

Mr. McCULLOCH: Your deficit would be a great deal more than $15,000,000.

Mr. NICHOLSON: How about taking 12 hours off?

Mr. VAUGHAN: You throw your schedules out, the times of arrival and departure all across the country. We are constantly studying this train service, and I think Mr. Walton has a committee which is studying from time to time all these train schedules, with a view to finding ways and means to improve them but, of course, we always in the final analysis look at what it is going to cost us and what additional revenue we are going to get. Unless we can balance the two we do not feel justified in doing it.

Mr. WALTON: Whatever we might do it would take some little time to perform the work. During the war years we did not make very substantial improvements in our track condition because of the help situation. It kept us busy on many lines to keep the track in as good condition from year to year as it had been without making material improvements. It is only in the last couple of years that we have been able to do any substantial ballasting for considerable distances, and so on, to make improvements in the track.

Mr. EMMERSON: With regard to the maintenance of track and the matter of speed what proportion of it would be a matter of track and what proportion would be reduction of weight of your trains and your cars? You are building heavier cars rather than lighter cars now? You should have lighter trains.

Mr. VAUGHAN: The new cars we are building are lighter than the old cars. I think it would be more a matter of improving the road bed than one of equipment.

Mr. EMMERSON: Are these new first class cars not heavier than the old ones?

Mr. VAUGHAN: No, sir; they have an alloy steel in them. It is lighter.

Mr. EMMERSON: But on that first class car you use six-wheel trucks. I understand that the American roads use four-wheel trucks on the new cars, and I understand the C.P.R. are using four-wheel trucks?

Mr. VAUGHAN: That gets down to a matter of opinion. Our mechanical officers feel that six-wheel trucks are safer than four-wheel trucks. That is another matter that has been considered carefully by our people and we are still of the opinion that six-wheel trucks are safer than four-wheel trucks.

Mr. WALTON: Some of the United States roads have started to go back to the six-wheel trucks after using the four-wheel trucks for a considerable time.

Mr. MUTCH: As a result of the accidents they had last year?

Mr. WALTON: I do not know what it would be attributable to, but their experience seemed to indicate to them they should do that, and some have done it.

Mr. EMMERSON: It means about 12½ tons a car.

Mr. WALTON: It adds considerable weight to the car, but if it is a safer proposition we think it is better. We have stayed with the six-wheel truck and we think we have been well advised to do so.

Mr. EMMERSON: Are the new pullmans not much heavier than the old ones?

Mr. WALTON: The new pullman equipment on the streamlined trains in the United States is lighter. The other new pullman cars probably will not vary a great deal in weight from those of 15 or 20 years ago.

The CHAIRMAN: Gentlemen, may we go on?

Mr. JACKMAN: I presume you are interested in the operation of the pool trains even though it may not be your particular crews that are running them. I have reference to the Ottawa-Toronto train, the second section particularly. On Saturday morning last, for instance, the train was an hour and a half late on that run. It is not a very difficult run to make, and it is almost invariably late 20 minutes or more. Do you check with the other railway inasmuch as it is a pool train and giving service to your customers as well as to the C.P.R.?

Mr. VAUGHAN: These matters are constantly under discussion with the Canadian Pacific Railway. Are you referring to the night train or the day train?

Mr. JACKMAN: The night train, the second section. I think that is the C.P.R. one.

Mr. VAUGHAN: Yes. That runs over C.P.R. track from Ottawa to Toronto.

Mr. JACKMAN: I understand the first section, the C.N.R. one, is usually on time, but when the second section is an hour and a half late on a Saturday morning it is quite a serious matter.

Mr. VAUGHAN: There probably was a good reason for it. Do you find that as a customary thing?

Mr. JACKMAN: Not quite an hour and a half, but 20 minutes or more. That is usual. May I ask if you have a department which tabulates the lateness of arrivals of trains?

Mr. VAUGHAN: Oh, yes. We have our transportation department which keeps a record every day of the trains. There is a sheet on Mr. Walton's desk and on my desk every morning as to the train performance, and those delays are followed up in each case.

Mr. JACKMAN: Does that include pool trains?

Mr. VAUGHAN: Yes, it would include pool trains where the pool trains run over our line, but where they run over the C.P.R. we do not get that.

Mr. WALTON: We do not get the details of that from day to day. If there is some unusual case we may inquire about it, but we do not get the same detailed statement each morning on the pool trains that operate over the Canadian Pacific as we do on the pool trains which operate over our own tracks. That we get every morning.

Mr. JACKMAN: How do you find your first section to Toronto from Ottawa?

Mr. WALTON: You are speaking of the two sections of the same night train?

Mr. JACKMAN: Yes.

Mr. WALTON: They both operate on the Canadian Pacific.

Mr. JACKMAN: The second section carries some of your pool passengers. It may be an accommodation for your line against competitors, but it is very bad.

Mr. VAUGHAN: In these pool trains the mileage is balanced. The night trains run over the C.P.R. between Ottawa and Toronto. The day train comes down to Brockville and there hooks up with the pool train at Brockville on our main line.

Mr. JACKMAN: I understand the Rock Island Railway in the United States have some special passenger trains with diesel locomotives which are fast and very profitable.

Mr. VAUGHAN: They have put on several of what they call their rocket trains which are equipped with diesel engines and light weight passenger equipment. I believe they are doing fairly well with them.

Mr. JACKMAN: Is there anything in that idea that we could make use of for the run between Montreal and Toronto or other well populated sections?

Mr. VAUGHAN: We cannot as yet get equipment of that type in Canada, and we do not feel like paying the 35 per cent duty on it.

Mr. MUTCH: Probably they would not let you have it right now.

Mr. JACKMAN: I notice in the operating statement you have an outgo on the rental of equipment which is quite substantial, is it not?

Mr. VAUGHAN: Yes, that is true.

Mr. JACKMAN: $7,000,000. Why is it we cannot provide enough cars for our own haulage? Even though some may be used in the United States and we may have the use of some of their cars it seems to me it would be a very good source of American funds rather than to have to use American funds for American cars.

Mr. VAUGHAN: Ever since the beginning of the war we have taken delivery of all the equipment we could get from the car builders in Canada. The car builders in Canada have been a year to a year and a half late in delivering equipment. We have a lot of equipment on order now. We are catching up.

Hon. Mr. CHEVRIER: It is a question of steel.

Mr. VAUGHAN: Steel and other things. For instance, we cannot get delivery on new equipment from the car builders now until 1949. We have orders in effect which will not be delivered until 1949. We have been getting all the freight and passenger equipment we could all during the war. Of course materials were required for other purposes, and there were restrictions on the quantities that could be ordered.

Mr. WALTON: I might say that of the 5,700 box cars which were ordered last year over half of them have now been delivered. With the balance to come in the next few months, plus another 1,000 which were ordered in 1948, our equipment should be in fairly good shape in regard to box cars, but one big item of this expense that you speak of is in connection with the so-called open top equipment due to the large movement of coal from the United States which takes place all the time into Canada.

Mr. JACKMAN: Is there anything in our agreement with the American railroads with regard to the interchange of rolling stock which would prevent us from having a substantial credit item on that account?

Mr. VAHGHAN: Not if we had the equipment, in the ordinary interchange between the United States lines and ours the regular per diem charge would apply.

Mr. JACKMAN: Would you expect if we had a surplus credit on the interchange of cars that the American railroads via the American government might complain?

Mr. VAUGHAN: If there was a surplus of cars the American railroads would want to use their own cars where they originate traffic on the American railroads, but I do not think they would object to us sending our own cars down for our own coal, for instance, if we had sufficient of them.

Mr. JACKMAN: Could you get two-way traffic on that?

Mr. VAUGHAN: In that case we would have one-way traffic. We would have to send the cars down light to the mines in the United States to be loaded.

Mr. WALTON: We have done that at times when we have had cars to spare. It is quite permissible to send our cars down for the return load.

Mr. JACKMAN: Send them down empty?

Mr. WALTON: Yes.

Mr. JACKMAN: Is that a very costly operation?

Mr. WALTON: It pretty well balances up with their cars coming up loaded and in all likelihood going back empty, not entirely, but in large numbers.

Mr. JACKMAN: That would seem to be a waste to send empty cars both ways?

Mr. WALTON: We furnish loading any time loading is available to United States points, but there is a heavy empty return movement of coal cars all the time to the United States.

Mr. JACKMAN: Our reciprocal arrangements between the United States and Canada in regard to rolling stock are happy ones, are they?

Mr. WALTON: They are just as reciprocal as they are with any other United States railway. The Canadian National and Canadin Pacific and other Canadian roads are members of the American Association of Railroads and have all the privileges and arrangements that are available to members of the American Association of Railroads.

Mr. JACKMAN: Not knowing anything about those regulations do they work?

Mr. WALTON: There is no regulation in them that makes any exception of Canadian roads.

Mr. NICHOLSON: We had some trouble last fall with cars, did we not?

Mr. WALTON: We cleared it up. Whether it will happen again I do not know. It was due to the very heavy movement of coal into Canada. Eventually we returned a considerable number of American cars and the complaints ceased.

Mr. VAUGHAN: The situation is now well in hand. We are having no trouble with the United States railroads or with the office of defence transportation in the United States at the present time.

Mr. JACKMAN: What can you send down from Canada in the coal cars?

Mr. VAUGHAN: Lumber, timbers.

Mr. JACKMAN: Moving from the same area where the coal arrives?

Mr. VAUGHAN: It is not always just the same area. We are permitted to move a car a reasonable distance if by doing so a return load can be obtained for it. That is within the car service regulations.

Mr. JACKMAN: Most of the coal cars that bring up coal from Pennsylvania and west Virginia go back with a full load?

Mr. VAUGHAN: Not most of them. That is the trouble. There is a one-way return movement to a considerable extent, but there is also quite a bit of return loading for them with lumber, and so on, moving into the United States. There is some pulpwood. Coal cars go into the maritimes in various places and get pulpwood or lumber or other commodities going back.

Mr. JACKMAN: Mr. Hatfield, one of our colleagues in the House from New Brunswick raised a complaint in the House one day that owing to the recent excise tax whereby we could no longer import as many fresh vegetables as formerly the American railroads would not send cars up to New Brunswick so he could have cars available for potatoes, I presume, and matters like that. Has that been a serious problem?

Mr. VAUGHAN: It did affect our business a little when these restrictions came on, but as far as refrigerator cars go, as I understand it, Colonel McLure, you have all the refrigerator cars you need now.

Mr. McLURE: At the moment we have. I should like to ask this question. Are those refrigerator cars Canadian National owned or are they rented from the American refrigerator car companies?

Mr. VAUGHAN: We have to rent many refrigerator cars from the United States refrigerator car companies. We are constantly building new refrigerator

cars. We are building 300 in our own shops at Winnipeg at the present time. We are improving our situation. A good deal of this refrigerator movement is a seasonal one—taking apples from B.C. or potatoes from P.E.I.

Mr. WALTON: I notice the loading for this season up to April 15 of potatoes from Prince Edward Island was some 6,400 cars, which was about 200 in excess of the same period in the previous year.

Mr. McLURE: There is a larger crop to move this year.

Mr. WALTON: We have had shortages from time to time due to the demand in various parts of the country. It is the same with refrigerator cars.

Mr. JACKMAN: Does the C.N.R. own enough equipment so that when we have these fresh fruits and vegetables coming in you have a surplus of cars that you could not dispose of? If you had to dispose of that surplus would you lend it to the American railroads?

Mr. WALTON: We never have had a surplus of refrigerator cars other than for short periods between seasons.

Mr. JACKMAN: With the ban placed last November what was the effect on the use of your refrigerator cars?

Mr. WALTON: The effect was that less United States cars were coming in, which put a greater demand on our cars in Canada.

Mr. JACKMAN: What would you use them for if there was no traffic from south to north?

Mr. WALTON: Six thousand cars were loaded from Prince Edward Island and three thousand from New Brunswick points with potatoes. There were exports of perishables in heavy volume to the Atlantic coast ports—fruit from Okanagan Valley, B.C.—which is a steady movement and comes to a peak in the fall.

Mr. JACKMAN: Would you be able to make full use of the equipment?

Mr. WALTON: Yes, we actually were short at various times.

Mr. REID: I had a complaint which I think was legitimate, and after hearing it I thought perhaps the railway authorities were not doing as much as they could to help these people. I have in mind the case of this particular person who ships carloads of rose-bushes east, and he at his own expense and experience has to find out about the heating of the cars. He found out that in the United States the railroads pay for the experimentation that is done by the railroads. Here they were not heating the cars; they were freezing them; he is thinking of taking his trade away from the Canadian National Railways and giving it to the American roads. He ships mostly to Toronto.

Mr. WALTON: From what point?

Mr. REID: From Sardis or Chilliwack. He made the complaint and I do not think the C.N.R. officials go far enough in helping the shippers to solve their problems in keeping these rose-bushes inactive in zero and sub-zero conditioned cars. At present they use heated cars and if they are taken out of the cars in zero weather the entire lot of rose-bushes may be spoiled. The buyers then claim that they sold them those rose-bushes that were dead, but of course they do not know that until the customers plant them. This man was put out about it. He said, "I think I will do most of my shipping by the United States railroads to Toronto, Montreal or Ottawa because they are helping the shippers." He says the shippers on the coast do not seem to care a great deal; they say it is up to the shipper himself.

Mr. VAUGHAN: We will go into that matter. It had not been brought to my attention.

Mr. WALTON: We have not heard of it, but we are co-operating with the shippers in regard to care of special shipments.

Mr. VAUGHAN: We have a development and research department which is constantly exploring ways and means of improving conditions. We will look into that matter.

Mr. EMMERSON: You have about 100,000 freight cars on the system.

Mr. WALTON: Yes; all classes.

Mr. EMMERSON: Have you any idea of the average number of American cars in operation on the system per day?

Mr. WALTON: Last week we had altogether about 7,000 U.S. cars on our lines in Canada and the U.S. lines had about 3,200 of our cars, all classes; an adverse balance of about 4,000.

Mr. EMMERSON: We could say that that would be around 105,000 or 107,000 operating in Canada.

Mr. WALTON: It varies from probably 103,000 to 106,000—somewhere around there.

Mr. EMMERSON: Have you got records, monthly or yearly, of the freight car mileage, per freight car day?

Mr. WALTON: Yes, I think that is in the report.

Mr. EMMERSON: How does that compare with what it used to be for the last five or six years?

Mr. WALTON: It has been climbing. We have been getting more mileage out of the cars, generally speaking.

Mr. VAUGHAN: It runs to over 40 miles per day.

Mr. JACKMAN: In relation to 1939 what would it be?

Mr. WALTON: It would be up, but we can get the figure for you. For the month of March it was 42 car miles per car day. That is the count of every car on the system and the total car miles as against 40·1 in March last year. It is on a separate report, but I can get it. It was up to 45 last September as against 44·1 the previous year.

Mr. EMMERSON: Is it possible to get the average for the year—for the last five years?

Mr. WALTON: We keep it as a matter of record. Would you like to have those figures—the car miles per car day for the past five years?

Mr. EMMERSON: The average. Have you got it monthly? It is a pretty important thing.

Mr. WALTON: It is something we are after all the time.

Mr. JACKMAN: We are harder on our equipment.

Mr. WALTON: Of course, that goes with the higher mileage; you are working your equipment that much harder.

Mr. EMMERSON: Around 100,000 or 105,000 would give you 5,000 more cars.

Mr. WALTON: That is why we are striving to get higher mileage. It is improving.

The CHAIRMAN: Gentlemen, perhaps the chairman should be seen and not heard, but in western Ontario we may have a particular problem in the future. We may need a special fruit train, a fruit and vegetable train over that area. I thought I might mention it now. Perhaps some of your officials will sit in on that problem. There will be a tremendous increase in production over that area. It will run into, perhaps, 1,500 carloads from my particular district—carloads of fruits and vegetables. There is a suggestion at the present time that a fruit-vegetable train may be necessary—a daily train. So I may be contacting you—and perhaps the other districts too—to get you to work on that. The C.N.R. does not run through that district, neither does the C.P.R.; the Pere Marquette runs through there and they connect with your railroad

to go to Toronto and Montreal. I may be asking you to sit in with a group to discuss that problem.

Mr. WALTON: Some of that fruit every season is brought over to Jeanette's Creek and the passenger train picks up the cars. Something better than that may be needed because the volume is building up.

The CHIRMAN: I believe something more will be needed.

Mr. NICHOLSON: In connection with the serious accident at Dugald, Manitoba, perhaps the president could make some statement as to what progress has been made in taking these old type of cars out of the way, and also in connection with orders and signals. I understand that everything was in order; but to a layman it would appear as if the orders in connection with traffic of that sort are not stated very clearly.

Hon. Mr. CHEVRIER: I wonder if we could not go on to page 4 because we are going pretty far afield and this may start a discussion.

Mr. NICHOLSON: Well, we have had a pretty wide discussion on this matter.

Mr. VAUGHAN: In response to that question, the accident was caused through not following train orders. That is to say that the orders were not properly carried out.

Mr. NICHOLSON: Was there any ground for misunderstanding contained in the orders?

Mr. VAUGHAN: I do not think there should have been any misunderstanding. I do not think there was room for any misunderstanding. So far as equipment is concerned, it is customary for all railways to use the older type of equipment on special trains at such times. We have not got enough modern equipment for special services of that kind where equipment is required occasionally; but we are replacing our wooden equipment. We have a large number of steel cars on order now, but that is a process which will take years to overcome.

Mr. JACKMAN: On page 24 you give a detailed list of the railway equipment. How many of those passenger-coach cars, of which there were 1,145 in total, are wooden?

Mr. VAUGHAN: I think we have that information here. Quite a large number of them are wooden.

Mr. WALTON: —I will have to get that information for you.

Mr. JACKMAN: It would be quite big, probably.

Mr. VAUGHAN: I do not think there is quite half, I think one-third are wooden.

Mr. WALTON: I have the figure somewhere here. My recollection is that there are about 900 when baggage cars are included, but I would prefer to get the figures.

Mr. JACKMAN: Under the I.C.C. rules are the American lines allowed to use wooden cars for passenger traffic?

Mr. WALTON: Oh, yes.

Mr. JACKMAN: Are there any restrictions at all tending to enforce the use of steel cars?

Mr. VAUGHAN: They are tightening up the regulations all the time. They are still permitted to use wooden cars in certain circumstances.

Mr. WALTON: I think they have the same restrictions as we have against placing wooden cars between steel cars; but I know of no restrictions against the use of wooden cars provided they are used in compliance with the regulations.

Mr. JACKMAN: Have you any equipment that is not interchangeable in the states?

Mr. WALTON: We do not have occasion to interchange passenger cars with the United States, except equipment which runs on international runs such as the Montrealer or the Washingtonian or trains running to Chicago. Those are main line trains and have steel equipment. I do not know when we have had occasion to interchange anything except steel equipment on such lines. The question does not arise as to interchange.

Mr. JACKMAN: What I was getting at was whether they had issued restrictions different from our Board of Transport Commissioners?

Mr. WALTON: No; they do not have any greater restrictions than do Canadian lines.

Mr. JACKMAN: I suppose our colonist cars are all wooden?

Mr. WALTON: No, we have some 30 or 40 wooden colonist cars, but we have quite a large number of steel colonist cars. They were used extensively during the war.

Mr. JACKMAN: Is the whole trend towards steel?

Mr. WALTON: Oh, yes. We are not building any more wooden cars at all.

Mr. JACKMAN: It is to be expected that the car-building equipment facilities in Canada—your own and the privately owned ones—would have a full volume of business extending through 1949?

Mr. VAUGHAN: I would say so.

Mr. JACKMAN: And I suppose you have given contracts that will pretty well see them through 1949?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: Are they readily cancelable? Is the nature of the contract a firm one?

Mr. VAUGHAN: They are firm contracts.

Mr. WALTON: I have those figures, Mr. Jackman, you were speaking of. The total passenger equipment on the system—this includes not only coaches but baggage cars and all classes of passenger equipment—is 3,218. Of that number steel cars number 1,663; steel under frame, 633; wood, 922. In other words, 922 wooden cars out of a total of 3,218.

Mr. JACKMAN: 1947 was a most unfortunate year for accidents, I take it, not only on the C.N.R. but on other railways in Canada, was it not?

Mr. VAUGHAN: We had quite a few accidents in 1947. Probably a few more than usual.

Mr. JACKMAN: Is there a figure on that in the report?

Mr. VAUGHAN: No, we did not mention anything about accidents in our annual report.

Mr. JACKMAN: The number must be at least double—I do not know whether they were in seriousness—over previous years?

Mr. VAUGHAN: Well, I could not say offhand. We had two or three rather bad collisions. The human element is always with us. Sometimes for some reason that cannot be explained train orders are not properly carried out.

Mr. JACKMAN: Were any of the accidents due to the excessive use you have to make of the poor equipment?

Mr. VAUGHAN: No, I do not think so.

Mr. WALTON: No, I do not believe that is a factor. Our investigations do not indicate that that is responsible.

Mr. JACKMAN: Have the findings been published of all the investigating committees—independent ones as well as railway?

Mr. WALTON: Any that were independently investigated I think have been reported.

Hon. Mr. CHEVRIER: The findings of the Board of Transport Commissioners on the Dugald tragedy have been made known. The report of the Transport Commissioners was published in connection with that wreck, as well as a report made in connection with the one in northern Quebec.

Mr. JACKMAN: Would the human element be the reason given in all these cases? What do you do with those who were responsible for the errors?

Mr. VAUGHAN: Those who were responsible—would be properly disciplined—it depends upon the extent of responsibility—frequently men are discharged in cases of that kind.

Mr. MUTCH: Is it not correct to say that in both of those tragedies the disposition was to bury the men responsible? They were both killed.

Mr. VAUGHAN: Yes, I think they were.

Mr. WALTON: The engineer was killed in the Dugald wreck.

Mr. NICHOLSON: How many men have been discharged for infractions of rule 9?

Mr. VAUGHAN: There are men discharged from time to time. When they are discharged for violation of rule 9, they stay discharged.

Mr. NICHOLSON: How does the number compare with previous years?

Mr. WALTON: We do not have a list of just how many men we discharge under rule G; but I do not think it varies one year from another.

Mr. VAUGHAN: The number is becoming less all the time.

Mr. MCCULLOCH: If the driver is responsible for the accident, is the whole crew laid off?

Mr. VAUGHAN: No; there are different degrees of discipline meted out.

Mr. WALTON: Are you speaking of the Dugald wreck?

Mr. MCCULLOCH: Would the crew suffer? The engineer and conductor were both killed.

Mr. WALTON: The balance of the crew were laid off for a time and taken back to work because of what we considered a very secondary responsibility. The incidence of time between when they had an opportunity to know there was anything wrong and the moment of the wreck was very short.

Mr. EMMERSON: Have you had any accidents where your C.T.C. is in operation?

Mr. WALTON: I think there has only been one.

Mr. EMMERSON: When was that started?

Mr. WALTON: When was that started—in the fall of 1941.

The CHAIRMAN: Gentlemen, can we turn over and get a more detailed statement?

Mr. JACKMAN: Have you ever transferred men who have been involved in accidents from the running trades to other forms of railway employment?

Mr. WALTON: There is considerable difficulty in doing that because the various trades have seniority and it is difficult to introduce a person from one trade into another group. It has been done in odd cases.

The CHAIRMAN: Will it be O.K. if we discuss the consolidated balance sheet and call Mr. Cooper?

Mr. REID: Are we going to come back to these other matters?

The CHAIRMAN: If there is anything there we had better take it up now.

Mr. REID: I wanted to ask a question based on page 6. I should like to ask Mr. Vaughan whether he anticipated any loss of revenue in view of the notation on page 6 concerning the application before the Board of Transport

Commissioners for a 30 per cent increase. Do you anticipate any loss of freight due to the 21 per cent increase of which you have spoken. I have in mind the fact that some steamship companies, both in Prince Rupert and Vancouver, are now beginning to make arrangements to pick up freight. In view of this 21 per cent increase, they are going back into business.

Mr. VAUGHAN: We think we will lose very little, if any, business on account of that increase in freight rates. It is costing the truckers and other forms of transportation a great deal more than it did before. Their costs have not gone up in the same proportion as the railways, but their costs have increased very rapidly.

Mr. REID: I presume as these steamship companies go below the full rail rate with the 21 per cent increase added, you will lower your costs accordingly?

Mr. VAUGHAN: We will have to wait and see what develops.

Mr. REID: It comes back to the question of truck competition, of course, with Ontario and Quebec being favoured in that regard?

Mr. VAUGHAN: We have always had truck competition and steamship competition.

Mr. REID: I am interested in your statement made on page 6, about the middle of the page, which says:

> It is the view of the directors that the railways should be compensated by increases in rates over and above any now to be granted.

Mr. VAUGHAN: What we had in mind, Mr. Reid, is that if we have to pay increased wages or increases in the cost of material, we should be reimbursed in some way; otherwise how are we going to meet the increased costs? We are faced now with an application for increased wages which, if granted, would amount to $92,000,000. We have rejected this application because we could not afford to pay. The men have applied for a board of conciliation and the government has appointed a board of conciliation. We do not know what that board of conciliation will recommend. An increase of only 1 cent an hour in wages means $2,500,000 per annum to us. We have already had increases in the cost of materials since the first of the year amounting to $6,000,000 or $7,000,000.
As you know, the price of coal was increased by 92 cents a ton in Alberta after the strike was over and the men were allowed an increase in wages. I believe there was an increase in the price of coal in Nova Scotia, too. How is the railway going to pay these increased costs?

Mr. REID: Could one infer from that statement that the 21 per cent increase granted will not cover any further increases in cost?

Mr. VAUGHAN: It is true.

Mr. NICHOLSON: Have you increased the rates all across the country the full 21 per cent?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: The minimum charges have been increased in Ontario?

Mr. VAUGHAN: Yes, they have been increased right across the board. There may be one or two variations of which I am not aware, but generally speaking, the increase of 21 per cent was applied to all commodities that are not exempt under the Board's order.

Mr. NICHOLSON: I understand there is a minimum rate of 75 cents in the west on eggs?

Mr. VAUGHAN: The increase would apply right across the country.

Hon. Mr. CHEVRIER: That is covered by the board's judgment.

Mr. NICHOLSON: I understand the railway is not obliged to increase the rate in Ontario if it wishes to compete with the trucks?

Mr. VAUGHAN: As a matter of fact, it has been applied right across the board.

Mr. REID: It comes back to my question of a few minutes ago; if the trucks and ships compete, you will drop your rates to meet theirs, I presume, to hold the freight.

Mr. VAUGHAN: We will just have to wait and see what develops. The trucks are a serious competition to the railways, there is no doubt about that; they always will be. The trucks are finding their costs are increasing rapidly. Most of the men engaged in the trucking business are organized, now.

Hon. Mr. CHEVRIER: The second paragraph of the Board of Transport Commissioners' judgment, page 87, authorizes the railway companies and express companies, without publishing, to file tariffs. In accordance with item 5 on page 88, the minimum charge for a single l.c.l. shipment between any two stations to be 100 pounds at first class rate, but not less than 75 cents.

Mr. NICHOLSON: How about this paragraph No. 2 on page 87.

> Competitive rates below normal rates established to meet motor truck and/or water competition, or other form of competition, may be adjusted within the discretion of the railway companies and the express companies concerned in accordance with a situation existing prior to issuing of order No. 69612, dated October 17, 1947.

What does that mean?

Hon. Mr. CHEVRIER: If the bus companies increase their rates and the truck companies increase their rates, then the raliways will probably do the same thing—and they have, I am informed, by 20 per cent.

Mr. JACKMAN: You are given the authorization to increase rates. Is there enough flexibility within the management to lower rates if you desire to meet a particular competition in any one section?

Mr. VAUGHAN: I think we still have that privilege by order of the board.

Mr. JACKMAN: It is not an inflexible rate fixed by the board which cannot be varied by you?

Mr. VAUGHAN: We do not have to go to the board to decrease our rates, just to increase them.

Mr. JACKMAN: Then, if you had a profitable package freight business and a truck line cut into your business, you could cut your rate to whatever you wished?

Mr. REID: I am rather intrigued by a statement made on page 7 of the report.

> The average cost throughout the years for raw materials used by the railway was 50·65 per cent higher than in 1939.

In the list of items given above that statement there are only two below 50 per cent and some of them go as high as 254·5 per cent. I was just concerned with how that average could be 50·65 per cent?

Mr. VAUGHAN: It would depend largely on the quantity of each material used. The 50 per cent figure is average applicable to all the material used. For instance, we used a lot of ties and we use a lot of coal.

Mr. MUTCH: It is 50 per cent of the average expenditure?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: The total percentage increase, not considering the varying amounts of commodities, but the average increase works out at 150 per cent for those items selected.

Mr. COOPER: Yes, but you will notice the headings at the top of the page: "December, 1947 price; December, 1939 price". Those two prices are year

end purchase prices, which is a different thing from the average cost throughout the year.

It is quite correct to say the average cost throughout the year was 50·65 per cent higher than in 1939, and costs are still going up. Therefore, we included in the report the latest figures we had which were the purchase prices in December, 1947. They are very much higher than the 1947 average prices. For example, the average cost of ties charged out throughout the year would include all the ties in stock at the end of 1946.

Mr. JACKMAN: My next question will not be so far from what you are endeavouring to say yourself. I realize that costs in December 1947 might be a peak as against—

Mr. COOPER: No, sir, they are still going up.

Mr. JACKMAN: —a peak as of the time the report was prepared?

Mr. COOPER: At the present time, in April, 1948, we figure our material costs are about $6,000,000 higher than when we made our budget.

Mr. JACKMAN: The point I want to make is this; while we understand the increase in costs in the forest products field, if this selection by the railways has increased 150 per cent on the average and, yet your total average for the year 1947 was only up 50·65 per cent, there must be a great many commodities which have not increased as much as they are likely to increase, or else the selection of your representative commodities is extraordinarily inflated. In other words, you are going to have a great many commodities which are going to increase greatly in price, is that not a fair inference?

Mr. VAUGHAN: The average commodities taken were those of which we used most. Our stores classification shows something like 50,000 odd items which we use. Some have not had as large an increase as others.

Mr. JACKMAN: If you take only those which constitute your greatest volume of purchase, it would be impossible for the selection to be up 150 per cent over 1939 and yet December, 1947, prices are only up 50·65 per cent?

Mr. COOPER: How do you get your 150 per cent? Are you adding up these increased percentages and dividing by the number of items?

Mr. JACKMAN: Yes, I qualified it to that extent in the first question.

Mr. COOPER: After all, you might be talking about car decking, costing say $1,000,000, but when you are talking about coal, you are talking about $25,-000,000. You must weigh those figures to get a proper average.

Mr. JACKMAN: I understand your reference to that, but, on the other hand, I presume you have thousands of items which are reasonably substantial—

Mr. COOPER: We picked the typical items which we use in railway maintenance and operation. They were not picked out because they showed unusual increases. They are the materials which we thought you would be interested in seeing.

Mr. JACKMAN: As one of the members pointed out there is only one item in that list, namely, axles for freight cars, 34·7 per cent, which is below the 50·65 figure?

Mr. COOPER: Rail, for instance, is only 50 per cent. Steel, generally, would average around the 50 per cent.

Mr. JACKMAN: Ties are a great expense; couplers are a considerable item; steel castings—the remainder are lumber items, I presume?

Mr. MUTCH: It is abundantly clear what the contention is from the following paragraph.

Mr. JACKMAN: Are there not many items which have not gone up the average rate, or which we might expect will go up or else the others should come down?

Mr. MUTCH: Is it not a question, Mr. Chairman, of comparing a yearly average with a spot price? It is as impossible as mixing oil and water.

Mr. VAUGHAN: That is correct.

Mr. MUTCH: In the second place, is it not a fact that these items which are represented here are the items which represent the major portion of the expenditure?

Mr. VAUGHAN: That is correct.

Mr. MUTCH: You pick ten or twelve out of the 50,000 items and say, "While these which require a great deal of expenditure are exceedingly high, the following paragraph explains that our average is only 50 per cent"; it seems to be elementary.

Mr. COOPER: That is right, we wanted to be fair. While we gave the latest purchase price as compared with 1939 we wanted to be quite fair, so we also showed what the average cost throughout the year was as compared with 1939. It was only 50·65 per cent.

Mr. EMMERSON: Mr. Vaughan, might I draw your attention to the last paragraph on page 6, which reads as follows:

> The average compensation per employee in 1947 was $2,382.31.

The only point I wish to raise there is that I noticed in the Canadian Pacific report their average compensation for the year was $2,322. This would mean the average compensation paid by the Canadian National was $60 a year greater than that paid by the Canadian Pacific?

Mr. VAUGHAN: Our figure takes into consideration the United States lines as well as the Canadian lines. The rates are higher on the United States lines.

Mr. EMMERSON: Does the Canadian Pacific figure take into consideration the United States lines?

Mr. VAUGHAN: No, sir, they only have a short mileage in the United States which is included in their report, principally the line running through the state of Maine to Saint John. According to the 1947 Canadian Pacific report, they show their annual wage as $2,322, and our average annual wage in Canada was $2,291. Ours was less than theirs.

Mr. MCLURE: I should like to ask one question concerning long haul carload freight versus local short haul freight and pick up and deliveries. Now, which of those types is the most profitable? Is it not your long haul carload freight? You are not making a loss on that? Does not the loss in freight revenue come from the local, short haul, pick up and general delivery business?

Mr. VAUGHAN: As a rule local freight rates are higher, proportionately, than long hauls. Naturally when you have a train to be hauled a long distance, it is cheaper proportionately to haul it than it is to haul a short train a short distance.

Mr. NICHOLSON: Mr. Chairman, I wonder whether, when we meet again, we could have the rates for shipping a 30 dozen crate of eggs 25 miles into Regina? Could we have the rate before the increase and the rate after the increase? Then, could we have a similar rate for shipment into Ottawa?

Mr. VAUGHAN: Yes, we could get it for you.

Mr. NICHOLSON: It is for a 25 mile limit on a 30 dozen crate of eggs.

Mr. VAUGHAN: You would want the rate on eggs coming from around 25 miles into Regina?

Mr. NICHOLSON: Yes, and from a 25 mile point coming into Ottawa.

Hon. Mr. CHEVRIER: Is it the express rate or the freight rate you wish?

Mr. NICHOLSON: Both the express rate and the l.c.l. rate.

The CHAIRMAN: Are there any further questions on page 7?

Mr. JACKMAN: I am still on page 4. I notice from the report you had 108,440 employees and the total number of hours worked was 170,187,536, which works out, if I figure it correctly, to 1,570 each. Taking two weeks out for holidays and dividing by 50 weeks, it would make about 30 hours according to my calculations. Is it a fact that the average number of hours worked was 31?

Mr. COOPER: The number of working hours in a year is 2,496. We have eight hours a day, 26 days a month and 12 months a year.

Mr. JACKMAN: That is what I thought, too, but your figures show 108,440 employees.

Mr. VAUGHAN: Some of those would be seasonal men who would not be employed the year around.

Mr. JACKMAN: The question I am asking has, perhaps, been answered by Mr. Cooper. What is the average weekly number of hours?

Mr. COOPER: Per month it would be 208.

Mr. JACKMAN: That works out at about a 40-hour week?

Mr. MUTCH: It is based on a 44-hour week.

Mr. WALTON: It is based on an 8-hour day.

Mr. JACKMAN: The figure I have used is the average number of employees. I see on page 31, 108,440. That is the average number of employees, and the number of hours worked was 170,000,000.

Mr. COOPER: No, sir, that was in 1939. The number of hours worked in 1947 was 251,000,000.

Mr. JACKMAN: That is right. I am sorry.

The CHAIRMAN: Is that all for that page?

Mr. McLURE: There was one little item that was drawn to my attention when the president was reading his report. It is on page 6. He said, "In the same way the so-called 30 per cent increase. . . ." and so on, and then he adds a little explanation of his own that this would only amount to 13 per cent increase.

Mr. VAUGHAN: Yes, sir.

Mr. McLURE: That is in freight rates and we have been arguing all this time in the House about this 21 per cent. I would like an explanation how it is 13 per cent as against 21 per cent.

Mr. VAUGHAN: I made some remarks.

Mr. McLURE: It is not in your report; you just made a remark.

Mr. VAUGHAN: Mr. Cooper has this statement.

Mr. COOPER: Based on 1947 freight revenue of $289,000,000, $69,000,000 of international traffic receives no increase under the recent order of the board; western region grain and grain products of $24,000,000 receives no increase. Coal and coke, $21,000,000 receives a specific increase of 25 cents a ton. So there is $174,000,000 subject to the 21 per cent—$174,000,000 out of $218,000,000 receives the 21 per cent increase; and that, plus the increase on coal, averages out at 13·6 per cent of the total freight revenue.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: On the hotel operating income, which is for about $1,210,000, have you any idea how you are able to place worn-out equipment and decorations, as compared with what might be an adequate depreciation allowance on the property?

Mr. VAUGHAN: We have set aside a reasonable amount for refurnishing.

Mr. COOPER: For replacement of furniture and furnishings—that is a direct charge to operating expenses. All equipment is replaced by charges to operating expenses and the structure itself, of course, is kept in good repair by charges to operating expenses. The only thing we have not provided for is what might be termed obsolescence of the building itself.

Mr. JACKMAN: Do you feel that last year as much was spent on repairs and replacements as you would have provided from a percentage of depreciation rate on your hotel properties, excluding the building itself?

Mr. COOPER: Yes, definitely. I may say, too, during the war when we could not get the furnishings we wanted we set aside a deferred maintenance reserve for the hotels, in addition to the deferred maintenance reserve we have been talking about for the railway.

Mr. JACKMAN: With the shortage of furniture, have you been able to buy as much as you wanted?

Mr. VAUGHAN: That is the reason we set up this deferred maintenance for hotels.

Mr. JACKMAN: I am wondering about 1947—

Mr. VAUGHAN: Carpets are very hard to get.

The CHAIRMAN: Gentlemen, it is one o'clock, so we will adjourn until four o'clock this afternoon.

The committee adjourned until 4.00 p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are on page 8, but I seem to have a recollection that Mr. Jackman had a question to ask on page 4. I thought we might discuss it in detail.

Mr. JACKMAN: Generally speaking, most things are based on page 4. May I ask this: in the railway field have they statistics as they have in the aviation field on the number of accidents, fatal or otherwise, per passenger mile carried?

Mr. VAUGHAN: Yes, we would have that.

Mr. JACKMAN: I was wondering if it was available for the last year?

Mr. VAUGHAN: It can be made available. These accidents are all reported to the Board of Transport Commissioners.

Mr. JACKMAN: Is there an available figure as there is in aviation?

Mr. VAUGHAN: I do not know whether it has been computed, but it is easy to compute it, and we will get it for you.

The CHAIRMAN: Could we turn to page 8?

Mr. WALTON: I have some figures Mr. Emmerson asked for this morning in regard to car miles per car day for the last five years. These are the figures for the Canadian National Railway System; car miles per car day: 1943—44·0; 1944—48·2; 1945—44·7; 1946—41·2; 1947—41·7.

Mr. COOPER: Mr. Jackman asked if the maintenance of the Chateau in 1947 was about normal. It was not up to normal, Mr. Jackman, but we increased our expenses by $45,000 to take care of the difference between the actual maintenance we performed and what we thought we should have performed.

Mr. JACKMAN: You increased your expenses by $45,000?

Mr. COOPER: Yes.

Mr. Jackman: You took up what you should have and what you were able to do; you took it up and where did you put it?

Mr. Cooper: We have a reserve for it.

Mr. Jackman: General deferred maintenance?

Mr. Cooper: Yes. At the Chateau, altogether this deferred maintenance reserve amounts to $258,000.

Mr. Jackman: I agree it is needed in some cases.

Mr. Cooper: Last year we redecorated 125 bedrooms and in 1948 we expect to redecorate 150 bedrooms. We have had 60 carpets on order for over twelve months. It has been very difficult to get material, particularly furniture.

Mr. Jackman: It is a very well run hotel and I have nothing but commendation for it; but the only way we can get at the facts concerning the system that you have is to carefully examine an operating statement of the hotel as you operate it now and compare the balance sheet items, estimating the depreciation and the allowed amounts by the Income Tax Department and finding out whether the allowance which would be given for depreciation for income tax purposes is greater or less than the amount of repairs and renewals which you provide. I do not know whether at this moment we want to go into it except as a general statement.

Mr. Cooper: We think the accounts have been charged with everything that should have been charged to keep that hotel in good condition.

Mr. Jackman: If it were a private company and subject to taxation I suppose the Income Tax Department would allow some depreciation on the structure itself?

Mr. Cooper: Yes.

Mr. Jackman: Two and a half per cent on a structure of that nature?

Mr. Cooper: I really do not know, but I imagine it would be 2½ per cent, which is rather high.

Mr. Jackman: It cannot be assumed that the Income Tax Department would allow that if there was not a semblance of reasonableness behind the logic.

Mr. Cooper: If we had been depreciating the Chateau at 2½ per cent since it was built it would be about 90 per cent written off. Actually, the Chateau is worth a great deal more than at what it stands on our books.

Mr. Jackman: In that particular case I would say you are quite right. Generally speaking, the rule of depreciation on buildings is a pretty sound rule, is it not?

Mr. Cooper: A general rule.

Mr. Vaughan: The fact remains, in connection with your question, that we have set aside in the deferred maintenance account for the Chateau $258,000 for repairs and touching up, which we think would be sufficient. It would take us some time at the rate we are going to use that amount of money because we cannot get the materials we need.

Mr. Jackman: It is amazing how much things cost.

Mr. Nicholson: Has it been possible to get the information regarding the rates on eggs east and west?

Mr. Vaughan: I think we have to get that information from Montreal.

Hon. Mr. Chevrier: Is it urgent?

Mr. Nicholson: The only point is that it seemed to me this morning there was the suggestion there was no discrimination against the west versus the east. My information is that there is. While the order makes it permissible to increase by 21 per cent, the increase in force in the west is the maximum charge where it is not in the east.

Mr. VAUGHAN: We will get that information. These are all agreed charges, are they not, Mr. MacMillan?

Mr. MACMILLAN (General Counsel): Very likely, sir.

Mr. VAUGHAN: We will get that information for you.

Mr. JACKMAN: I presume we are going into the operating expenses. I wonder if the chairman would care to explain why the dividend income is down to $225,000 as compared with $530,000?

Mr. COOPER: It is due to the fact that in 1946 we received a dividend from Trans-Canada Air Lines, whereas in 1947 we received interest which is taken to credit in the item below.

Mr. JACKMAN: One year it was called a dividend and the next year—?

Mr. COOPER: In 1946 the T.C.A. had a deficit, but as they had an accumulated surplus they paid a dividend out of the surplus. In 1947 the Canadian National charged interest on its investment at the same rates which the government had charged against the railway, and the railway accounted for it as interest income instead of dividend income.

Mr. JACKMAN: How much did you get on the dividend basis—5 per cent?

Mr. COOPER: Not in 1946. We took 3 per cent in 1946.

Mr. JACKMAN: In 1947?

Mr. VAUGHAN: The original T.C.A. Act provided for 5 per cent, but that was altered subsequently.

Mr. JACKMAN: The interest was 3 per cent, was it, to offset the government rate?

Mr. COOPER: No, the government charged us 1 per cent on $16,000,000, which the government advanced to the railway for T.C.A.—the interest charge was 1 per cent and we charged the T.C.A. 1 per cent.

Mr. VAUGHAN: It was just a temporary loan. It is now being charged at the rate of 3 per cent.

Mr. COOPER: From the 1st of April.

Mr. JACKMAN: They are very peculiar.

Mr. COOPER: No, Mr. Jackman, it came about this way. When we borrowed that money for the T.C.A. it was fully expected that the railway would make an issue of bonds to the public and repay the government in short order. It was short-term money and the government, we thought, should charge us interest at short-term money rates.

Mr. JACKMAN: You were going to put out an issue?

Mr. COOPER: Canadian National bonds.

Mr. JACKMAN: Of the same type as was done in the case of the Canada West Indies Steamships—T.C.A. bonds guaranteed by the government?

Mr. COOPER: No, sir, these were to be railway bonds guaranteed by the government; and had we made that issue we would have repaid the government the amount we had borrowed from them for the T.C.A. So that this T.C.A. loan from the government was short-term money and it carried the appropriate rate for short-term money.

Mr. JACKMAN: This last year you drew interest from the T.C.A. on the original capital investment; you charged them for the money, even though it is an investment in the stock of the T.C.A. and not an obligation of T.C.A., it is not a debtor obligation.

Hon. Mr. CHEVRIER: Let us not get into a discussion on the T.C.A. We are going to discuss that subject next week.

Mr. JACKMAN: Very well. Perhaps I will ask this gentleman a question now that we have an item relating to the railway ownership of the T.C.A. You

are railway managers and not, perhaps, acting under instructions of a higher nature; would you be in favour of advancing sums of money to the T.C.A. from the standpoint of making a return?

Mr. VAUGHAN: In this patricular case the C.N.R. has been used as the means of financing T.C.A. and most of these T.C.A. services have been put on as a matter of government policy.

Mr. JACKMAN: I suppose that answers the question.

The CHAIRMAN: Is there anything on page 8?

Mr. McLURE: I see that pensions cost $502,481. Personally I would like to see that a little larger, for this reason, that in our section of the railway we have a lot of old minimum pensions. Would there be any possible chance of getting this increased with some amount of living bonus to give the men, good railway men, something of a retiring allowance that would be sufficient for them to live on. Today those in the lower brackets are receiving practically nothing.

Mr. VAUGHAN: To alter our practice in that respect would cost us a good deal of money. We feel we could not afford it. These men have had an opportunity, I think, of contributing to the pension fund.

Mr. COOPER: I think it should be pointed out that we had, at the end of 1947, 13,501 people on pension, and their average pension is $667 a year. There seems to be a thought that the C.N.R. pension is $25 a month. Our average pension is $667 a year, and that covers 13,501 people. We had 2,648 people drawing pension of $25 or under but that is less than 20 per cent of our pensioners. Less than 20 per cent of our pensioners receive the minimum pension. Now, a large number of those—in fact all who have gone out since 1935—are employees who chose not to contribute towards a higher pension. I have here a statement which shows what a man who contributes $5 a month toward his pension would get. After twenty years of service his pension, if he contributes $5 a month, would be $45 a month.

Mr. McLURE: If he retired after 1935?

Mr. COOPER: Yes. Had he contributed for twenty years $5 a month his pension would be not less than $45 a month; if he had thirty years' service his pension would be $64 a month; if he had forty years' service his pension would be $89 a month. That means that someone coming into the service at age twenty-five and continuing to age sixty-five and paying $5 a month would receive a pension of $89 a month. Five dollars a month is only 5 per cent of $100 a month, and our average annual wage is over $2,300. If he paid 5 per cent of $2,300 he would be paying well over $10 a month and his pension would be what I consider quite an adequate one.

Speaking of this minimum pension of $25 a month, it must be remembered that most of these people had an opportunity to improve on that and they have chosen not to do so. The fact is that we have 13,500 people on our pension roll and that is a lot of pensioners, and their average pension is over $660 a year. I do not think it can be said that the C.N.R. pension plan does not provide adequate pensions. It does if the employees will join in with the company to see that their old age security is provided for.

Mr. EMMERSON: Are there many left on the old I.C.R. provident fund?

Mr. COOPER: Yes. On pension at the end of 1947 there were 2,900.

Mr. EMMERSON: Are there many employees now employed at that?

Mr. COOPER: Yes, something like 5,800 members are still in employment.

The CHAIRMAN: Page 9.

Mr. HAZEN: May I ask a question here? I wish to refer to section 14 of the Canadian National-Canadian Pacific Act of 1936, which states that the directors shall make a report setting forth the results of their operations, any co-operative measures, plans or arrangements effected pursuant to this Act,

any economies or more remunerative operation thereby produced . . . that is between the Canadian Pacific and the Canadian National. Has any report been made?

Mr. VAUGHAN: Yes, I think each year we have made a report. If you refer to page 9, the second last paragraph, you will find the report that was made in that connection.

Mr. HAZEN: In addition to abandoning these lines, were there any other co-operative measures taken between the Canadian Pacific and the Canadian National Railways in the public interest last year?

Mr. VAUGHAN: I do not think there were any which would come under that Canadian National-Canadian Pacific Act. We are studying arrangements with the C.P.R. from time to time.

Mr. HAZEN: That is the only thing that has been accomplished during the last year?

Mr. VAUGHAN: In connection with abandonments, it is.

Mr. MUTCH: Would that rate as an accomplishment?

Mr. HAZEN: I would like to ask a question about the International Aviation building in Montreal. Did you start the construction last May and has the building been completed?

Mr. VAUGHAN: About a year ago, yes. No, sir, it has not been completed.

Mr. HAZEN: What is its present position?

Mr. VAUGHAN: It is set out on page 8 of the annual report.

> The construction of the International Aviation Building above track level adjoining the Montreal Central Station is proceeding according to plan. The site has been cleared, the excavation in rock for the foundation columns is approaching completion, the steelwork, now being erected, should be completed by May 1948, and the contract for the building itself has been let. Work is proceeding on the construction . . .

That is all about aviation.

Mr. HAZEN: What has it cost the railway to date?

Mr. VAUGHAN: I think we can get that for you.

Mr. COOPER: I will have to look that up. We have it here.

Mr. VAUGHAN: Coming back to this co-operative arrangement you, of course, understand that the agreements in respect to pool trains are still in existence.

Mr. NICHOLSON: Last year the new ferry service to Prince Edward Island was inaugurated, between Prince Edward Island and the mainland. I presume Mr. McLure and the people are satisfied with the freight rates.

Mr. VAUGHAN: I have heard of no complaints. I suppose there are some complaints; I would be surprised if there were not. I think the people on the island are satisfied. Perhaps Mr. McLure can tell us about it?

Mr. MUTCH: If there were not complaints you would have been told.

Mr. NICHOLSON: I travelled on the ferry last year; it is very beautiful.

The CHAIRMAN: O.K., Mr. McLure, you had better tell us the story.

Mr. MCLURE: We have still a little difference. Our claim is that as regards the operating of the ferry—this is a claim which has been put forward more than once, as the honourable Minister of Transport knows—according to the terms of union we should not have a rate on the ferry more than it would cost for carrying the same cargo or the same freight over the highway for the same distance. In other words, that is a service that the government should give to us on account of our insular position and on account of the terms of the confederation pact. Therefore, we will never be satisfied until those

terms are met. Notwithstanding the fact that we have a very fine boat there now, still the truck traffic is not of any benefit to us until we get the minimum rate that we should get according to the terms of confederation.

Mr. COOPER: May I answer Mr. Hazen's question? The figure is $264,000.

Mr. HAZEN: That is the amount which has been expended to date?

Mr. COOPER: To the end of 1947.

Mr. HAZEN: Last year, when did you expect to get this building finished?

Mr. COOPER: By June 30, 1949.

Mr. HAZEN: What is your estimate as to the cost?

Mr. COOPER: $3,840,000.

Mr. HAZEN: Have you arranged, as yet, for the rental of that building?

Mr. COOPER: We have not made a final agreement. The arrangement will be that we shall get a rental sufficient to cover the carrying charges, together with a small profit to the railways on its investment.

Mr. HAZEN: Did you not tell me last year that you expected, in a week or two, you would have a commitment with ICAO, or whatever it is called?

Mr. COOPER: Yes, I did.

Mr. HAZEN: What happened?

Mr. COOPER: Negotiations were begun between ICAO and the dominion government. Instead of the ICAO people taking the lease directly from the railway company, an arrangement has been made whereby the government will be the lessee and ICAO will be a sub-tenant of the government.

Mr. HAZEN: ICAO?

Mr. COOPER: That is the International Civil Aviation Organization.

Mr. HAZEN: Who is going to rent it now, the dominion government?

Mr. COOPER: And sublet a portion of it to the aviation organization.

Mr. HAZEN: That was not the plan you had in mind, was it, when you started construction?

Mr. COOPER: No, when we were here a year ago, I thought we would have a direct lease with ICAO.

Mr. HAZEN: Not only did you think that, but you said that in about two weeks you expected a commitment on what you would consider satisfactory terms. What happened, then, did they back out of it altogether?

Mr. COOPER: No, sir.

Mr. HAZEN: You will make your agreement direct with the government; that is a very convenient thing for you because you and the government can agree on any rent you like. The government pays you the rent which you think will cover the charges. Could you not come to an agreement of that kind with this organization with which you were negotiating previously?

Mr. COOPER: I understand it is involved with the United Nations and a lot of other high government policies. I am not too familiar with them.

Mr. HAZEN: Did the negotiations break down between you and ICAO?

Mr. COOPER: No, sir, they did not break down at all.

Mr. HAZEN: Were you told to discontinue them by the government?

Mr. COOPER: We were notified that the government would be in the picture and that the arrangement would be satisfactory to the railway, leaving up to the government and IACO the negotiations between themselves as to the terms of the sub-lease.

Mr. HAZEN: You call it ICAO?

Mr. COOPER: ICAO is I-C-A-O—International Civil Aviation Organization.

Mr. HAZEN: I see, you call it ICAO?

Mr. COOPER: Yes, sir, in talking of these organizations we abbreviate them.

Mr. HAZEN: Will the International Air Transport Association rent part of the building?

Mr. COOPER: Yes, sir, they will.

Mr. HAZEN: Has any agreement been made with them?

Mr. COOPER: No, because we were awaiting the main agreement with ICAO.

Mr. HAZEN: Will there be any other corporations in the building?

Mr. COOPER: Yes, Trans-Canada Air Lines will be in the building and several other of the aviation companies will be in it. The Canadian Pacific Air Lines will be in it; B.O.A.C. will be in it and K.L.M.

Mr. HAZEN: Have any of them entered into leases, as yet?

Mr. COOPER: No, it is rather difficult to enter into a formal lease when a building is not constructed.

Mr. HAZEN: I understood you were going to get enough from the rentals to amortize this building in 31 years?

Mr. COOPER: We intend to do that.

Mr. HAZEN: You could, if the government gives you enough to do that.

Mr. COOPER: We shall charge what we consider to be a proper rent. It will be computed on the cost of ownership and maintenance. It will cover all the charges as we compute them.

Mr. HAZEN: Did the question of the amount of rent have anything to do with ICAO changing its mind?

Mr. COOPER: No, sir, the amount of the rent has not yet been determined because we are not certain of our final cost. Originally, we spoke of a rent of $2.75 a foot and, at the present time, we are thinking in terms of $3 a foot. I have told the ICAO people and the others their rent will be about $3 a foot.

Mr. HAZEN: The estimated cost of this building was $3,000,000?

Mr. COOPER: $3,840,000.

Mr. HAZEN: That was your estimate last year, and is that your present estimate?

Mr. COPPER: This is a little higher than last year because our costs have been higher.

Mr. HAZEN: Your estimate now is $3,840,000. What was it last year?

Mr. COOPER: For the building itself it was $3,572,000.

Mr. JACKMAN: I do not suppose this is a firm contract?

Mr. COOPER: It is subject to an escalator clause.

Mr. JACKMAN: It is based on wages and such things?

Mr. COOPER: Yes.

Mr. JACKMAN: Who is building it for you?

Mr. COOPER: Anglin-Norcross, that is the building itself. The Dominion Steel Company is erecting the steel work.

Mr. HAZEN: This is what you told me last year. You said you thought within the next week or two you would have a commitment with ICAO and that you were only taking a chance of a week or two. It was a much bigger chance than that?

Mr. COOPER: I made that statement in good faith. At the time I made it I believed we would have our commitment. I have not the slightest doubt, in my mind, in due course, before occupancy takes place, we shall have a binding agreement.

Mr. HAZEN: But not with them?

Mr. COOPER: It will be with the government. From our point of view, we shall be better off.

Mr. HAZEN: Much better off; you can probably make a better arrangement with the government.

Mr. COOPER: All through the negotiations we were concerned with what would happen if ICAO were to fold up and walk out of Montreal. We were constructing this building substantially to their specifications, or at least, to their requirements. We were asking for certain guarantees in case the lease was broken. From our point of view, it is much preferable to have the lease to the Government.

Mr. HAZEN: There was no agreement entered into with them; they are not committed to any penalties?

Mr. COOPER: I told you I expected we would have a commitment, that was a year ago. I have told you the reason why we have not yet made a formal agreement.

Mr. HAZEN: No person is committed to any penalties?

Mr. COOPER: If we have a firm lease from the dominion government, I say we are in a better position than if we had a lease with ICAO.

Mr. HAZEN: You have not a firm lease with them, but you expect to get one?

Mr. COOPER: Yes.

Mr. REID: What was the original estimate of the cost of that building and what is it going to cost now?

Mr. COOPER: A year ago we estimated the cost of this office building at $3,572,000. Our present estimate is $3,840,000.

Mr. REID: The reason I asked that is that we built a hospital in the city of New Westminster. It took us over a year before we completed it and it had doubled in cost from the time of the original bids.

Mr. COOPER: There is no doubt our costs have gone up, and our rent will go up as the costs go up.

Mr. NICHOLSON: The plans you had a year ago included a new hotel?

Mr. VAUGHAN: That is somewhat in the future. Nothing has been done in connection with that except the preparation of drawings.

Hon. Mr. CHEVRIER: I am afraid so long as steel is as scarce as it is now, the hotel will have to wait.

Mr. JACKMAN: Is the demand for this building such that its immediate erection is imperative?

Mr. COOPER: You mean for the aviation building?

Mr. JACKMAN: Yes.

Mr. COOPER: I think we could rent it twice over.

Mr. JACKMAN: For the $3 a foot?

Mr. COOPER: We are speaking of $3 at the present moment.

Mr. JACKMAN: So far as making contracts for the space before the building is erected is concerned, there was no difficulty in that connection with the Bank of Montreal building in Toronto.

Mr. COOPER: Someone said they were getting $3.50 a foot for space.

Mr. VAUGHAN: I think it is fair to say, in connection with this building, the government did step in and say they would guarantee the rental. It must be remembered, of course, there are a great many countries involved in this international aviation organization and there are many ramifications in con-

nection with that organization. These people expressed a wish, finally, to have a lease with the government instead of with us. The government undertook to guarantee us against any loss in connection with the building.

Mr. JACKMAN: It would appear as if $3 a foot would allow you to amortize it over a 31-year period?

Mr. COOPER: Yes, at the moment. We do not know what will happen before it is completed.

Mr. JACKMAN: Has this ICAO organization any real financial substance? Has it the right to draw on its members if faced with deficits?

Mr. COOPER: I do not think I can answer that.

Hon. Mr. CHEVRIER: Each country pays into the organization. Canada pays into the International Aviation Financial Organization. To what extent, I do not know. All the countries pay into it and it is from that fund the money is taken.

Mr. JACKMAN: Canada pays in as a country and not as T.C.A.

Hon. Mr. CHEVRIER: Not as T.C.A.

Mr. MUTCH: This is all very interesting, but what has it to do with the question before us?

Mr. MCLURE: Are you still considering erecting a building near the central station to house your help?

Mr. VAUGHAN: Some day we will have to do that. We have tentative plans for a building which will adjoin the so-called aviation building. We have not done anything about the actual construction. We are very short of office accommodation in Montreal. We have our office help spread all over. We have nearly two thousand, I think, under the Viaduct in a space which was originally intended as warehouse space.

Mr. MCLURE: Last year, when you were making a statement here you considered that was hardly suitable space to be occupied by help?

Mr. VAUGHAN: That is so, but costs are so terrific today we hesitate to embark on any large building projects unless we actually have to do so.

Mr. MCLURE: One more question in connection with page 8. Have you already given the operating profit on each of the hotels which makes up that total profit of $1,000,000 odd?

Mr. COOPER: We have not filed it as yet. We put it in the minutes of proceedings last year. Do you wish it read out?

Hon. Mr. CHEVRIER: I think last year you put it in the minutes.

Mr. COOPER: Yes, I can do that again.

Mr. REID: How is the Hotel Vancouver doing?

Mr. COOPER: In 1947, after paying us our full rent of $280,000 and after paying income taxes and setting aside 10 per cent for depreciation on furniture and furnishings, the Hotel Vancouver had a net income of $288,000.

Mr. REID: I am interested in that because that hotel certainly charges a lot.

Mr. MOORE: Last year, I asked a question about the building of a railway from some point on the Hudson Bay railway to Lynn Lake. I notice the mining developments are more positive in that area. I understand they are putting down a shaft in the Lynn Lake area. Do you intend building in that area this year?

Mr. VAUGHAN: That is a big job. We have not done anything about it at all. It would cost many millions of dollars. I think the construction of that railway is some distance in the future as yet.

Mr. MOORE: There have been no representations made for it as yet?

HOTELS

—	Revenues	Expenses	Taxes	Net
	$ cts.	$ cts.	$ cts.	$ cts.
Year 1947:—				
Charlottetown	270,814 90	222,616 12	5,867 95	42,330 83
Pictou Lodge	40,408 18	30,298 77	373,08	9,736 33
Nova Scotian	762,867 27	604,608 60	24,760 80	133,407 87
Chateau Laurier	2,663,534 51	2,133,829 69	87,732 19	441,972 63
Prince Arthur	381,013 61	306,598 70	6,258 52	68,156 39
Minaki Lodge	122,797 58	119,290 62	442,03	3,064 93
Fort Garry	901,439 23	733,892 88	33,920 06	133,626 29
Prince Edward	239,205 38	220,511 24	4,390 26	14,303 88
Bessborough	788,624 73	626,719 99	3,815 15	158,089 59
Macdonald	898,758 94	732,725 10	16,673 71	149,360 13
Jasper Park Lodge	759,531 41	613,084 40	9,775 98	136,671 03
	7,828,995 74	6,344,266 11	194,009 73	1,290,719 90
Year 1946:—				
Charlottetown	225,324 95	189,749 48	5,825 45	29,750 02
Pictou Lodge	30,376 35	28,024 41	395 41	1,956 89
Nova Scotian	793,194 38	632,930 17	20,317 50	139,946 71
Chateau Laurier	2,366,685 61	1,909,235 44	74,413 69	383,036 48
Prince Arthur	334,025 64	280,237 73	5,968 61	47,819 30
Minaki Lodge	113,771 32	93,088 67	396 65	20,286 00
Fort Garry	860,421 11	715,257 87	34,035 20	111,128 04
Prince Edward	208,499 20	197,171 56	4,449 16	6,878 48
Bessborough	719,186 63	570,140 88	3,742 68	145,303 07
Macdonald	801,795 06	682,986 57	16,916 48	101,982 01
Jasper Park Lodge	598,237 92	477,085 43	7,066 86	114,085 63
	7,051,518 17	5,775,908 21	173,527 33	1,102,082 53
Increase or *Decrease*	777,477 57	568,357 90	20,482 40	188,637 27

	Investment Dec. 31/47	Date opened	Number of guest rooms	Percentage of occupancy
	$ cts.			
Charlottetown	864,314 04	April 14, 1931	107	63·0
Pictou Lodge	215,577 87	1926	50	79·3
Nova Scotian	2,491,960 50	June 23, 1930	149	94·8
Chateau Laurier	9,067,998 89	Old wing June 1912	519	84·0
Prince Arthur	1,221,748 93	March 14, 1911	101	84·7
Minaki Lodge	1,102,972 96	1920	98	86·7
Fort Garry	2,948,436 91	December 1913	244	86·7
Prince Edward	538,045 17	June 1912	80	73·0
Bessborough	3,569,471 17	December 1935	255	72·6
Macdonald	2,302,144 08	July 1915	186	92·1
Jasper Park Lodge	2,824,038 36	1922	345	84·4
	27,146,708 88			

Mr. VAUGHAN: No.

Mr. JACKMAN: When you explained the lowered dividend income for this year over last year by reason of the fact certain T.C.A. interest or dividends were not included in the interest income, it nevertheless turns out the interest income itself is down over the previous year.

Mr. COOPER: As you know, we have been drawing on our deferred maintenance fund. We have been selling the bonds which were in that fund to meet expenditures and, of course, as we sell the bonds the income of the fund is also reducing.

Mr. JACKMAN: You do not add interest on the bonds held in the deferred maintenance account to the deferred maintenance account?

Mr. COOPER: That is right, we have always done that.

Mr. REID: Have you given up any thought of taking over the P.G.E.?

Mr. VAUGHAN: We are not considering that very seriously at the present time.

Mr. JACKMAN: Is that the line which is connected to the P.G.E. which goes up to the Peace River country? Is that your potentiality or the Canadian Pacific's?

Mr. VAUGHAN: That would be a P.G.E. potentiality. The British Columbia government were looking for someone to complete the line from Quesnel up to Prince George and from Clinton down to the main line of the C.P.R. or the C.N.R. and to extend a line up to the Peace River country.

Mr. JACKMAN: If it goes through, would it come under your system or the C.P.R. or would you both want it?

Mr. VAUGHAN: We would not want it unless someone paid the operating expenses.

Mr. JACKMAN: You do not think it is within the immediate future?

Mr. MUTCH: What you mean is that whoever gets stuck with the P.G.E. gets stuck with that.

Mr. JACKMAN: It is great country.

Mr. VAUGHAN: It is great country, but it will be a long time before a railway could be made to pay in that area.

Mr. REID: Even with the coal reserves up there?

Mr. VAUGHAN: There has been a lot said about the coal, but there is a lot of coal in other parts of the country, too, in which railroads already exist.

Mr. JACKMAN: You think it is a long way off?

Mr. VAUGHAN: I would think so, unless some provincial or the dominion government is prepared to pay for it.

The CHAIRMAN: Are there any other questions?

Mr. HAZEN: Yes, I should like to tell the secretary of this committee that I did not receive any notice of this meeting. If he sent me one, it may have been mislaid in the mail. I have some regrets about this because there were quite a number of questions I should have liked to ask, and I am hardly prepared to ask them at the moment.

Hon. Mr. CHEVRIER: We will be here all week.

Mr. HAZEN: Yes, but you will not be on these items.

Hon. Mr. CHEVRIER: We shall not hold you up.

Mr. HAZEN: I should like Mr. Vaughan to tell us whether there was any statutory enactment which compelled the Canadian National Railways to reduce the freight rate to Portland, Maine, effective November 17, last?

Mr. VAUGHAN: I do not think so.

Mr. HAZEN: Did you reduce those rates at the request of Moore-McCormick?

Mr. VAUGHAN: I think, if you are going to discuss those freight rates we ought to have Mr. Fraser, our traffic vice-president here. Our traffic department handled that particular matter. I do not know whether the request came from Moore-McCormick or not. My understanding is that the move was done solely with the object of holding that business to the Canadian National Railways, rather than letting it go via foreign lines to Boston, New York, Philadelphia or some place else.

Mr. HAZEN: Do you expect Mr. Fraser will be here?

Mr. VAUGHAN: He could be here any time you wish.

Mr. Hazen: I wish to ask someone some questions about it.

Mr. Vaughan: We could have him here tomorrow, if you wish.

Mr. Hazen: That is all right with me.

Mr. Vaughan: We will see if we can get him here.

Mr. Reid: The amount of grain going through Pacific ports in 1930 amounted to approximately a hundred million bushels, 50 per cent of which was carried by the Canadian National. What has happened to that traffic?

Mr. Vaughan: Did you say Portland?

Mr. Reid: No, the trade going through Pacific ports in grain?

Mr. Vaughan: As you know, Mr. Reid, we do not route the grain. We carry the grain to any point as directed by the grain board.

Mr. Reid: They are the ones I should hold to account for it?

Mr. Vaughan: We handle the grain to wherever it is directed.

Mr. Reid: I put this before you; some thought should be given to your company getting on the water-front in British Columbia. As it is, you come to Port Mann, which is the terminus. Then, you have to operate over leased lines costing you $15 a car from there into Vancouver. You land on the flats. Then, you have to transfer your cars to the water-front and pay another charge to get your grain and goods out from the city of Vancouver. I believe you are losing a great deal of money by being subservient to the Great Northern, the Canadian Pacific and the Vancouver Harbour Railways. You are stuck in the centre of Vancouver. If you have goods to the Orient, you have to get to the water-front and pay $15 a car.

While I am at it, I should like to know this; why do the boats having cargoes for the east not go right up to the port of Vancouver instead of the Canadian National carrying from Vancouver island and paying freight charges to bring the cargoes from the Vancouver island to Port Mann? These ships from Great Britain and the other countries bringing wool, silk and other cargoes which are going to be shipped east, there is no reason why these boats could not be brought right up to the port of New Westminster, and the cargoes shipped by rail, instead of the Canadian National maintaining a car service to take the cargo off the boat on Vancouver island and bringing it across to Port Mann.

Mr. Vaughan: We should like to see some of those boats go to New Westminster. There again, we cannot compel them to go there. What you say about our situation in Vancouver is quite true. It is not good. It is one we have been trying to overcome. We have studied the situation on different occasions. We have a fairly good agreement with the Great Northern. The Harbour Board controls a certain number of tracks there, but the Canadian Pacific control most of them.

Mr. Reid: The Canadian Pacific has control of the water-front in Vancouver.

Mr. Vaughan: On a number of occasions we have been considering the question of making a satisfactory arrangement. That matter is now being studied because we realize we are not in a good position in Vancouver so far as import and export traffic is concerned.

Mr. Reid: You are working for the other railways. $15 a car to cross a bridge into Vancouver is a big toll.

Mr. Vaughan: I think the Harbour Board has been giving some study to it, Mr. Chevrier.

Hon. Mr. Chevrier: They have for some years.

The Chairman: Did I understand, Mr. Hazen, that you did not get notice for any meeting today?

Mr. HAZEN: No, I do not think I got any notice. I got no notice for any meeting. I do not know when I looked at my box last. It may have been a slip-up. Perhaps notice was sent and I did not get it. I might not have seen it. I do not blame anybody for it. That is just the explanation why I was not here this morning.

The CHAIRMAN: May I say also, Mr. Hazen, that I have a communication regarding the Portland scheme and the Moore-McCormick lines from another member of the House, Mr. Isnor. When Mr. Fraser comes here I will read that at the same time and he can answer all questions if that is O.K.

Mr. JACKMAN: On page 4 under deductions from income, results of separately owned properties, apparently we had a loss of $600,000 last year against a profit of $337,000 the year before.

Hon. Mr. CHEVRIER: Can we not discuss that on page 12? I understood we had passed page 4, and were now at page 12.

Mr. MUTCH: We rose on page 12. We have not got back to it this time.

Hon. Mr. CHEVRIER: Do you mind asking the question on page 12?

Mr. JACKMAN: I do not know what difference it makes.

Hon. Mr. CHEVRIER: It makes this difference, that if we want to spend two weeks discussing this report I suppose we can.

The CHAIRMAN: What was the question?

Mr. JACKMAN: There is an item here which I do not know anything about, and it is fairly substantial. It is under deductions from income, results from separately operated properties. To begin with I do not know what they are. In black letters it shows a loss of $600,000, and in italics there is a profit of $337,000 the year before, about a million dollars difference. I merely asked for an explanation of what it was.

Mr. COOPER: Would you mind turning to page 22 first?

Mr. JACKMAN: Would you rather have it raised afterwards?

Mr. COOPER: I can deal with it now. I will ask you to turn to page 22 which shows a list of companies comprising our system. You will notice a number of them are identified by an asterisk. They are the companies the results of which go into this particular account. You see there Canadian National Railways (France), Canadian National Realties Limited, Canadian National Steamship Company Limited, Canadian National Transportation, Limited. I think there are 27 of them altogether. Do you want the results of each one?

Mr. JACKMAN: Just generally. You lost money on them this year as compared with the previous year.

Mr. COOPER: Some of them made a profit and some of them made a loss, but in the aggregate there was a loss. One of them, for example, would be Northern Alberta Railways, a company which we operate jointly with the Canadian Pacific. In 1947 they had a loss of $663,000 (that is our one-half share) which compared with a loss in the previous year of $495,000. The loss of the Northern Alberta Railway Company alone, $663,000, accounts for the loss in that group. The Niagara, St. Catharines and Toronto Railway Company in 1947 had a loss of $220,000 as compared with a loss of $35,000 the previous year. The Canadian Northern Land Department, which in 1947 had a profit of $248,000, in the previous year had a profit of $618,000. There was a considerable reduction in the amount of western Canada land sold. The Canadian National Steamships on the Pacific coast had a loss of $95,000 in 1947 compared with a small profit in 1946. Those four or five companies I have mentioned are the principal companies in that group of 27 separately operated properties.

Mr. JACKMAN: In other words, some of the subsidiary companies—you call them separately operated properties—suffered the same as the railway did last year as compared with the year before?

Mr. COOPER: Yes, they also had to meet rising costs of labour and materials.

Mr. JACKMAN: The main loss is probably occasioned through the C.N.R. land development?

Mr. COOPER: It was not a loss.

Mr. JACKMAN: Less profit.

Mr. COOPER: Less profit. There was about $370,000 less profit on the land department.

Mr. JACKMAN: That is the sale of farm acreage, ranch acreage?

Mr. COOPER: Yes, acreage in western Canada land which was granted to the Canadian Northern and Grand Trunk Pacific when they were projected.

Mr. JACKMAN: I thought all your lands were taken over by the Canadian Northern Prairie Lands Company in the old days.

Mr. VAUGHAN: No, that was an independent company entirely apart from the railway.

Mr. JACKMAN: It did get railway lands, did it not?

Mr. VAUGHAN: It did. I think it bought some of these lands from the Canadian Northern Railways.

Mr. JACKMAN: Have you very much acreage left?

Mr. COOPER: I do not think we have a great deal, but I can get the figure and give it to you.

Mr. JACKMAN: Is there very much in Saskatchewan?

Mr. COOPER: I could not say.

Mr. JACKMAN: When you sold land did you reserve the mineral rights?

Mr. VAUGHAN: The mineral rights have been reserved in most cases.

Mr. JACKMAN: In Saskatchewan?

Mr. VAUGHAN: We had to give up some mineral rights in Saskatchewan to avoid taxation.

Mr. JACKMAN: You are following that policy where you are being assessed?

Mr. VAUGHAN: Yes. We will file a statement of the unsold lands.

Mr. JACKMAN: Have you been fortunate enough to discover any minerals in these properties?

Mr. VAUGHAN: There has not been any great mineral development on any of our property as yet.

Mr. JACKMAN: Do you expect your land department will continue for many years or is it almost gone now?

Mr. COOPER: They have certain lands which have not yet been sold, and they have land which is under contract, the payments on which are on an annual basis. Some of those contracts run along for a considerable time.

Mr. JACKMAN: Do you expect this account will be running for another ten years?

Mr. COOPER: I would think so.

Mr. VAUGHAN: Our land department looks after other things besides prairie lands. They have city land and right-of-way and matters of that kind to deal with.

Mr. HAZEN: I should like to clear up a point. In checking over the figures Mr. Cooper gave me about the International Civil Aviation building he told me, as I took it down, that your estimate last year was $3,572,000 and it is now $3,840,000. Those are the figures as I have quoted them. Is that right?

Mr. COOPER: Those are the figures I gave a few minutes ago.

Mr. HAZEN: I want to call your attention to that. I think there is something wrong there. On page 20 of the minutes of our proceedings of last year you say: "The estimated cost of this international aviation building—because that is the name of it—is $3,936,000. The estimate carrying charges are $406,000. That is per annum. The annual revenue is estimated to be $544,000." That was the gross revenue. You will notice the figure I have just read is $3,936,000. That differs from the figures you gave a few minutes ago. I was wondering if you could correct that.

Mr. COOPER: I would have to refer back to the figures but briefly the explanation is that last year we were talking about the aviation building including a connecting building, and the figures I gave also included certain railway work which was all in the one project. In connection with this we have done certain work which is purely for the railway and has nothing to do with the aviation building. Last year we were talking more or less about the project as a whole. I have broken it down this year and I have given you the figures for the aviation building separately from the connecting building and the railway works.

Mr. HAZEN: I am a little puzzled still about it because you gave us the estimated cost and the carrying charges.

Mr. COOPER: I have given you the explanation of it.

Mr. HAZEN: No mention was made of that last year.

Mr. COOPER: I grant you that. Last year the discussion was in a way sprung on us, and we did not have our estimates broken down. We knew what we were going to do and I gave you the figures at the time. Twelve months have gone by, and we have had an opportunity to break the work down to the different parts. You asked me today what the cost of the aviation building is separate from all the other things and I have given you the figures.

Mr. HAZEN: Just a minute. I am still puzzled because you say the estimated cost of the main building—that is the one here—is $3,936,000. That was the cost of the building. Then you told us what the carrying charges were going to be on that building, $406,000. Now you say that $3,936,000 included something else.

Mr. COOPER: It included—

Mr. HAZEN: You say the figures you gave us today are right and the others are wrong?

Mr. COOPER: No, I say they are both right. Strange as it may seem I say they are both right, but we are really talking about something a little different. The building we had in mind last year was the aviation building together with the connection which was intended to join to the office building which was going to be constructed. We had in mind a year ago we would be going ahead with the office building. I gave you the estimated cost of the first stage which included the aviation building and the connecting building. The connecting building is a small affair adjoining the two buildings together.

Mr. HAZEN: Then you gave me the carrying charges.

Mr. COOPER: I can give you the carrying charges again.

Mr. HAZEN: Were you referring to the carrying charges of the—

Mr. COOPER: Of both.

Mr. HAZEN: Just the aviation building or the connecting building?

Mr. COOPER: No, I gave you the carrying charges on the two. If you want the carrying charges on the aviation building I will give them to you.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1947

ASSETS

Investments:			
Road and Equipment Property	$2,009,365,828.19		
Improvement on Leased Property	2,152,436.91		
Miscellaneous Physical Property	62,363,084.92		
		$2,073,881,350.02	
Capital and Other Reserve Funds:			
System Securities at par	$ 666,500.00		
Other Assets at cost	6,781,396.90		
		7,447,896.90	
Deferred Maintenance Fund		25,000,000.00	
Investments in Affiliated Companies		59,794,603.17	
Other Investments:			
System Securities at par	$ 80,000.00		
Other Assets at cost	874,035.29		
		954,035.29	$2,167,077,885.38
Cyrrent Assets:			
Cash		$ 13,538,605.15	
Temporary Cash Investments		5,477,649.66	
Special Deposits		5,191,995.19	
Net Balance Receivable from Agents and Conductors		16,708,642.43	
Miscellaneous Accounts Receivable		9,979,480.59	
Trans-Canada Air Lines Advances		1,000,000.00	
Dominion of Canada—Balance due on Railway Deficit		3,885,194.28	
Material and Supplies		62,945,537 23	
Interest and Dividends Receivable		632,048.21	
Accrued Accounts Receivable		3,628,282.95	
Other Current Assets		356,308,35	
			123,343,744.04
Deferred Assets:			
Working Fund Advances		$ 383,586.10	
Insurance Fund:			
System Securities at par	$ 5,549,904.37		
Other Assets at cost	6,790,864.59		
		12,340,768.96	

LIABILITIES

Stocks:		
Capital Stocks of Subsidiary Companies held by Public		$ 4,570,940.00
Long Term Debt:		
Funded Debt Unmatured:		
Held by Public	$ 572,554,357.52	
Held in Special Funds	10,305,404.37	
		582,859,761.89
Dominion of Canada—Loans		689,470,348.51
Current Liabilities:		
Traffic and Car-Service Balances—Credit	$ 11,920,679.59	
Audited Accounts and Wages Payable	21,203,965.16	
Miscellaneous Accounts Payable	6,767,441.33	
Interest Matured Unpaid	4,738,811.97	
Interest Payable to Dominion of Canada	18,858,212.91	
Unmatured Interest Accrued	5,984,356.75	
Accrued Accounts Payable	6,642,662.13	
Taxes Accrued	3,677,647.31	
Other Current Liabilities	1,856,785.42	
		81,650,562.57
Deferred Liabilities:		
Pension Contract Reserve	$ 40,915,000.00	
Other Deferred Liabilities	5,565,397.93	
		46,480,397.93
Reserves and Unadjusted Credits:		
Insurance Reserve	$ 12,340,768.96	
Accrued Depreciation—Canadian Lines—Equipment only	99,925,359.96	
Accrued Depreciation—U.S. Lines—Road and Equipment	25,120,276.76	
Accrued Amortization of Defence Projects	3,501,861.23	
Deferred Maintenance Reserve	25,000,000.00	
Other Reserves	1,023,474.84	
Other Unadjusted Credits	8,135,334.38	
		175,047,706.13
Dominion of Canada—Proprietor's Equity—(See Note)		
Represented by:— 1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000.00	

Pension Contract Fund:			
System Securities at par	$ 4,009,000.00		
Other Assets at cost	36,906,000.00		
		40,915,000.00	
Other Deferred Assets		2,850,123.59	
			56,489,478.65
UNADJUSTED DEBITS:			
Prepayments		$ 71,821.18	
Discount on Funded Debt		4,322,828.22	
Other Unadjusted Debits		2,969,230.70	
			7,363,880.10
			$2,354,274,988.17

5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	378,518,135.02	
Capital Expenditures by Dominion of Canada Government Railways	377,677,766.12	
		774,195,901.14
CONTINGENT LIABILITIES:		
Major contingent liabilities, as shown on statement attached.		
		$2,354,274,988.17

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railways System for the year ended the 31st December, 1947.

The total amount of the Investments in fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for Equipment has been applied only from the 1st January, 1940, retirement accounting continuing in effect for Fixed Properties.

Subject to the foregoing, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1947, and that the relative Income Account for the year ended the 31st December, 1947, is correctly stated.

As required by Section 13 of The Canadian National-Canadian Pacific Act, 1936, we have reported to Parliament in respect of our annual audit. Such Report for the year 1947 consists mainly of comments of an explanatory nature regarding the financial accounts but also includes references to other matters which we deem may be of interest to Parliament.

GEORGE A. TOUCHE & Co.,

10th March, 1948.

Chartered Accountants.

Mr. HAZEN: I should like the carrying charges if we have not got them. I should like the carrying charges on the aviation building according to your present estimated cost.

Mr. COOPER: The annual charges are estimated to be $424,718.

Mr. HAZEN: They have gone up about $18,000. What is your estimated annual revenue now?

Mr. COOPER: If we figure it at $2.75 a foot our annual revenue is $555,000.

Mr. HAZEN: It remains the same?

Mr. COOPER: Is that the figure I had last year?

Mr. HAZEN: $544,000.

Mr. COOPER: It is $555,000. We are still figuring here at $2.75 a foot but I have explained we probably shall increase that rent, but at $2.75 a foot the annual revenue is figured at $555,365. The difference between the two figures I am quite sure is due to the square footage which changes from time to time the way the space is laid out.

The CHAIRMAN: Is that clear, Mr. Hazen.

Mr. HAZEN: There is nothing more to add?

Mr. COOPER: No, sir. Are there any questions?

Mr. HAZEN: I think when I first asked you you said you would have to go back to get further information but you have it all there.

The CHAIRMAN: Suppose we take page 12 and 13, the consolidated balance sheet. You may wish to ask Mr. Cooper a lot of questions or perhaps he would like to make a statement or discuss it with you first. I forget the procedure we used last year.

Mr. JACKMAN: There is a very big difference in the discount on funded debt, the amortization of discount on funded debt, between the two years. Is there anything special there?

Mr. COOPER: Yes. We had two issues which were callable in the early part of 1948. We had an issue of $20,000,000 3 per cent bonds which we could call for payment February 1, 1948, and we had an issue of $25,000,000 of 3 per cent bonds which were callable for payment February 15, 1948. In 1947 those issues were called for redemption and the unexpired discount was written off into the 1947 income statement.

Mr. JACKMAN: Were those bonds payable in Canada only?

Mr. VAUGHAN: Yes, sir.

Mr. COOPER: They are all Canadian bonds.

Mr. JACKMAN: And refunded in Canada?

Mr. COOPER: We borrowed the money from the government.

Mr. JACKMAN: On short term?

Mr. COOPER: It was long term.

Mr. JACKMAN: Three per cent?

Mr. VAUGHAN: We borrowed the money at 2½ per cent.

Mr. JACKMAN: The next item is fairly substantial, too, miscellaneous income charges, $457,000 against $1,130,000. Is there anything special there?

Mr. COOPER: That is a reduction, of course. It is due to the abolition of the discount on United States money.

Mr. JACKMAN: July 5, 1945?

Mr. COOPER: 1946, I believe it was.

Mr. JACKMAN: So for half a year you had a 10 per cent premium and after that you did not?

Mr. COOPER: Yes.

Mr. JACKMAN: That largely accounts for this?

Mr. COOPER: This is a gain due to being freed from discount on United States funds.

Mr. JACKMAN: It is nice to know somebody is gaining by it.

The CHAIRMAN: Any other questions on page 12?

Mr. McLURE: I have one question on page 9. I did not think you were finished with page 8. It is in reference to the Northumberland ferry vote which was passed the other day, item 557. I take objection to calling it a deficit. It deals with the deficit for the Prince Edward Island ferries of some odd $900,000. My claim last year was this should not appear in the public accounts as a deficit but should appear as a service the same as all other government services that are paid out of the consolidated revenue. This is the only one and it appears as a deficit against Prince Edward Island.

Hon. Mr. CHEVRIER: The Hudson's Bay Railway appears also.

Mr. McLURE: Take the canals in Ontario and Quebec. They cost hundreds of millions of dollars to build and also have a deficit of $4,000,000 or $5,000,000 annually. That never appears against the province of Quebec or Ontario as a deficit but always as a service, and it should appear in our accounts the same way, a government service paid out of the consolidated revenue, and should not be marked as a deficit.

Hon. Mr. CHEVRIER: All subsidies for services appear as deficits when deficits exist in all provinces in Canada. In the further supplementary estimates on March 31, 1948, we voted to provide for deficits in Ontario and in Quebec and in the eastern and western provinces.

Mr. McLURE: Are they stated as deficits? Take your canals. They are never stated as deficits. They are always paid as services.

Hon. Mr. CHEVRIER: That is different.

Mr. McLURE: In the agreement of 1873 this was a service also and not a deficit.

Hon. Mr. CHEVRIER: It is a subsidy for a service.

Mr. McLURE: It is not a subsidy in the sense of a subsidy.

Hon. Mr. CHEVRIER: I suppose we could enter into a discussion on the legality of the term "subsidy".

Mr. McLURE: It would be just as easy to call it a service the same as the others instead of having it appear as a deficit.

Hon. Mr. CHEVRIER: The Hudson's Bay Railway appears as a deficitary operation as well.

Mr. McLURE: That is different. They are not under a contract for service. According to the agreement the province of Prince Edward Island is. I do not want to bring this up time after time but it is always a matter that is like a sore thumb.

Hon. Mr. CHEVRIER: I am seized of its importance now.

Mr. McLURE: I hope when the amount is coming up another year it will come in as a service instead of as a deficit.

Mr. JACKMAN: On page 7 the president reports: "Apart from the impact these higher prices have on the costs of operation, they necessitate an enlargement of the railway's working capital." I realize how you make up your deficit if you have one, by appropriation under parliament, but if you need more working capital you simply put it in the budget?

Mr. VAUGHAN: You will find something in our budget this year for that.

Mr. Jackman: We have not got the budget yet.

Mr. Brown: No, we will deal with it at the end.

The Chairman: Is there anything else on page 12?

Mr. Nicholson: On page 12 I notice there is $12,340,768 in the insurance fund. I wonder if Mr. Cooper has the record for the past few years. How long has it been over $12,000,000?

Mr. Cooper: It has been stationary at about $12,000,000 for some time. We really have a ceiling on the fund. We feel it is sufficient now to protect us against the risks, and the arrangement is that if there is a surplus in the fund at the end of the year we transfer it to the railway accounts, and if there is a deficit we pay in the additional premium. I think only in one year have we had a deficit. The amount in the fund remains stationary from one year to another.

Mr. Nicholson: Have you the amount of the losses over a period of years? Have you those available?

Mr. Cooper: The losses charged to the fund?

Mr. Nicholson: Yes.

Mr. Cooper: I can give them for 1947. I can get them for the previous years. In 1947 our losses charged against the fund were $400,000. Our premium income was $102,000. Our income from investments was $597,000. Our losses were $400,000. The administrative cost was $21,000. That makes a profit of $277,000, which was transferred from the fund to the railway income statement.

Mr. Nicholson: How much?

Mr. Cooper: $277,000.

Mr. Nicholson: Would it be too much trouble to get the figures for the last ten years?

Mr. Cooper: We can do that without any trouble.

The Chairman: Any other questions on page 12?

Mr. Hazen: I should like to ask a question. I do not know whether or not I am in order. On page 10 it reads:

> Attention is once more directed to the lack of equality of competitive conditions as between rail and highway transport.

I think that is a very important matter to direct the attention of the government to. What I should like to ask Mr. Vaughan is, have you considered any solution for the situation? Have you any suggestions as to what should be done?

Hon. Mr. Chevrier: We had a suggestion in 1939 when Mr. Howe brought down a bill to amend the Transport Act.

Mr. Hazen: What year was it?

Hon. Mr. Chevrier: I am informed it was in 1938—in which he included a section which would give the Board of Transport Commissioners jurisdiction over the certain highways. The opposition of the provinces was such that it simply had to be withdrawn. The provinces take the view that they are the masters of their highways, and they do not like to have federal interference. Until you get agreement between the two bodies on that very delicate subject I do not think you will find the government, in view of the attitude that was taken in that session of parliament, very anxious to bring in legislation which might be interpreted as taking away from the provinces certain of their rights.

Mr. Hazen: It does present a problem that is very difficult of solution.

Hon. Mr. Chevrier: I agree with you it is one that is difficult of solution. While I am offering only my own personal view on it I think it is one for dominion-provincial relations.

Mr. Hazen: I was going to suggest that possibly some time it could be brought up at a dominion-provincial conference with the hope of getting something done.

Hon. Mr. CHEVRIER: There was in the green book a series of items on the agenda, and in the green book there was also reference to the transportation problem. Unfortunately it was never reached.

Mr. HAZEN: I think there is great lack of equality.

Hon. Mr. CHEVRIER: I agree.

Mr. HAZEN: As the president points out it is most unfortunate.

Mr. VAUGHAN: We have a department that has studied that very carefully and has full data on it, but as Mr. Chevrier says it is a delicate matter to deal with.

Mr. NICHOLSON: I wonder if the minister has taken any steps, since taking over the portfolio, to try to convene a dominion-provincial conference on this level to try to reach some agreement.

Hon. Mr. CHEVRIER: I have not taken any steps nor have I any intention of taking any steps after what I have seen take place in the last dominion-provincial conference. Before doing anything I should like to have some assurance there would be some possibility of agreement, but knowing what happened in 1938 I doubt very much whether the provinces have changed their views.

Mr. NICHOLSON: That is ten years ago. It is an important national problem. Just because one conference fails there is no reason why another might not be attempted.

Hon. Mr. CHEVRIER: That may be.

Mr. GIBSON: Is it not a fact that the railroads move a ton of freight a mile cheaper than any other form of transportation on land?

Mr. VAUGHAN: Mass transportation, yes, if all factors of cost are taken into consideration there is no doubt about that.

Mr. GIBSON: Do you think you would be in a competitive condition with trucks on that basic factor?

Mr. VAUGHAN: Yes. For instance, the railway has to build its own right of way. It has to maintain that right of way. It has to pay interest and taxes on that right of way.

Mr. HAZEN: You have to pay higher wages, too.

Mr. VAUGHAN: Yes, we have to pay higher wages. There is no doubt about that, but after all factors of cost have been taken into consideration it has been proven beyond doubt time and again that in the United States and Canada the railway is still the cheapest form of transportation in distances beyond 50 or 100 miles.

Mr. MOORE: It should be possible to arrange something whereby truck transportation would actually assist the railroad.

Mr. VAUGHAN: We have a good many arrangements with the trucking companies for highway and rail movements, wherever we think there is an advantage to ourselves to do that; and that is developing all the time.

Mr. JACKMAN: I should like to ask a legal question and perhaps Mr. MacMillan would go on the record in connection with the Saskatchewan lands which are owned by the railroad and where the mineral rights were reserved by the company, which mineral rights have now been given up because of the tax.

Was there anything in the agreement between the dominion and the newly created province of Saskatchewan protecting those who had mineral rights preserved to them, so that they would not be lost?

Mr. VAUGHAN: Perhaps Mr. MacMillan might answer you.

Mr. MACMILLAN: I really cannot answer that because I are not familiar with the terms of the agreement; but I would doubt that there is anything in the statute.

Mr. VAUGHAN: As far as I know, there is nothing.

Mr. JACKMAN: In connection with the Manitoba waterpowers, there is a very definite reservation as to what Manitoba can do with regard to the waterpowers which were granted to the various interests, if subsequently taken over. This is not, in form, a taking over, but it has the effect of compelling people who have mineral rights reserved to them to give them up.

Mr. VAUGHAN: All the interests concerned have made frequent representations to the province of Saskatchewan in this matter.

Mr. JACKMAN: From the legal point of view, you have no protection.

Mr. VAUGHAN: So far as I know, no.

Mr. JACKMAN: In regard to general information under taxes, you mentioned that, with the expiration of the agreement between the dominion and the provinces for war purposes, there is an item to be considered, inasmuch as the system, in general, is not showing a profit, with respect to its Ontario and Quebec assessed taxation.

Mr. VAUGHAN: Mr. Cooper has the particulars of that.

Mr. COOPER: It is according to the mileage of the railway in the province.

Mr. JACKMAN: That had been given up during the war?

Mr. COOPER: Yes. For five years the province agreed to get out of the corporation and personal income tax field, so they did not collect corporate taxes of any kind during that five-year period.

Mr. JACKMAN: In place of paying corporation taxes to either of those provinces?

Mr. COOPER: During the period of the agreement, there was no tax paid to the province.

Mr. JACKMAN: But prior to that time you paid not on the net result, but on the basis of mileage?

Mr. COOPER: That is so.

Mr. JACKMAN: So now you are actually back on a mileage basis, profit or loss?

Mr. COOPER: Exactly where we were prior to the five-year agreement.

Mr. JACKMAN: Have you readily available the amount of the taxes paid on the mileage basis?

Mr. COOPER: In 1947, for Ontario, we accrued $457,000. In Quebec, $60,000. There is a difference there, in that Quebec municipalities have wider taxing powers than in Ontario.

Mr. JACKMAN: Do you not feel in regard to this whole matter of profit taxation that if you can show you are not making a profit in either of these provinces, then there is good reason for the argument that you should not pay taxes, because you did not have any earnings on which to pay them?

Mr. COOPER: It is not a tax on earnings, but rather a tax on the value of the property, measured, in this case, by the mileage of the railway in the province.

Mr. JACKMAN: Surely. The basis of mileage was taken in lieu of being able to departmentalize earnings per province.

Mr. MACMILLAN: I do not think it is, because the province of Ontario, for many years, has had a railway assessment Act, which is a statute under which the railway facilities are assessed for municipal taxation. They exclude certain facilities and permit assessment, but the right-of-way is assessed on the value, on the average value of the adjoining lands. Facilities, structures, building, and things of that nature are exempt, excepting those facilities where labour is employed. That is not quite the way it is set forth in the statute, but it is a rough review of the situation.

Mr. JACKMAN: It is always in lieu of municipal taxation rather than income tax.

Mr. MACMILLAN: Yes.

Mr. JACKMAN: That was given up as part of the corporate and personal income tax during the war?

Mr. COOPER: No. This was an overriding provincial tax.

Mr. MACMILLAN: You have the two systems. The provincial tax which was vacated by the province during the term of the dominion-provincial agreement, and also municipal taxes on facilities.

Mr. JACKMAN: That was made part of the dominion-provincial agreement; this tax you are now paying to Ontario and Quebec, you did not pay during the war?

Mr. COOPER: We continued to pay municipal taxes during the five-year period.

Mr. JACKMAN: But the president's report says: "Taxes. The provision made in the accounts for taxes increased $2,765,075, mainly attributable to a settlement of claims by the cities of Halifax and Saint John, resumption of provincial taxes in Ontario and Quebec on the expiration of the wartime agreement with the federal government..." That is one of the reasons for the higher tax charge.

Mr. COOPER: The provinces came back into the tax field and began to assess corporation taxes. In the case of the railway, it is based on the mileage; in the case of telephones it is based on something else; and in the case of express companies it is based on something else. But, with respect to railways, it is calculated on the amount of mileage you have in the province.

Mr. JACKMAN: Well, it is something you have now which you did not have in the war years.

The CHAIRMAN: Is there anything on page 13?

Mr. MCLURE: Due to the fact that buses run down to the Borden ferry, has the Canadian National Railways any legal authority for charging those buses $1.50 a trip down to the ferry? It is a great inconvenience to the public. The bus service may run down, it may be from some part of the island where is no railway service. Then they have to get out of the bus at the station and buy a ticket for five cents or ten cents, which should be included in their sixty-five cents ride across, and they have to get their luggage all out. Whereas, the bus company, if they refuse to pay the $1.50, leave the passengers at the first station. So I would like to know if the Canadian National have that authority, legally, to say that the bus cannot run down to the pier.

Mr. VAUGHAN: I do not suppose we are doing anything that we have not got authority to do.

Mr. MACMILLAN: Where does the bus run from?

Mr. MCLURE: Oh, it may run from Victoria, where there is no railway, or from Rocky Point, where there is no railway service, or it may run from Charlottetown where there is a railway service.

Mr. MACMILLAN: Where is it? Is it on the dock, in respect to which the charge is made?

Mr. MCLURE: If the bus runs down to the steamer, you see, then the charge is made.

Mr. WALTON: The charge has been made for many years, and I understood there was justification for the charge on account of use of our property.

Mr. McLure: There could not be very much, if it is based on wear and tear, because the province itself keeps up the highway down to the pier. This is right to the boat.

Mr. Vaughan: Well, the buses ought to pay something for using our facilities.

Mr. McLure: No. They are using government facilities. It is only a small matter, but it is a terrible inconvenience. It does not amount to a great deal. Probably $1,000 or so, in the run of the year.

Hon. Mr. Chevrier: But that would add to the deficit, I would revert to a matter which you brought up a moment ago, to your complaint about the method by which it was shown in the estimates. I find now, in looking over the Duncan report, that there is contained therein a recommendation which the railways have followed down through the years. "We further recommend that, so far as the ferry boat service is concerned, it should not be run as part of the railway operations, but should be run by the railway administration under separate account for the department. We feel that, by reason of its association with railway accounts, this service does not get the attention it should receive." So, it is by virtue of this recommendation that the railways operate that as a separate account.

Mr. McLure: It was taken out of the railways' hands in 1932 on the recommendation of the Duncan commission.

Hon. Mr. Chevrier: That is the explanation of the manner in which it is set up.

Mr. McLure: But it was not supposed to be taken out and then appear as a deficit.

Hon. Mr. Chevrier: But that is exactly what it says.

Mr. McLure: No. It was supposed to be taken out of the railway account. That deficit was always chargeable to the operating of the railway, and in 1931 or 1932 we had that removed, so that it did not appear against our division of the Prince Edward Island railway.

Mr. Vaughan: We will have to look that up and see what it covers.

Mr. Hazen: Could we have a breakdown on the record of the taxes of $9,887,323?

Mr. Cooper: Yes.

Mr. Hazen: I did not mean for you to read it, if it is too long.

The Chairman: Well, it will be included in the record.

TAXES

	1947
Dominion Government	
Unemployment Insurance	$1,156,052
Excise Stamps	115,174
United States Government	
RR. Retirement Tax Act	1,937,103
Unemployment Insurance	1,011,086
Income and Excess Profits	140,454
Capital Stock	....
Other	18,119
Other Governments (Great Britain, Mexico)	20,145
Provincial	603,890
U.S. States Taxes	1,445,003

TAXES—*Concluded*

Municipal Taxes	
Halifax	364,883
Saint John	178,263
Montreal	1,092,233
Quebec	45,203
St. Lambert	24,496
Hamilton	41,478
London	44,486
Ottawa	96,618
Port Arthur	12,968
Stratford	36,469
Toronto	372,828
Windsor	35,935
Winnipeg	23,131
Calgary	11,837
Edmonton	74,227
New Westminster	21,492
Prince Rupert	21,733
Vancouver	52,567
Buffalo	40,716
Portland, Me.	42,792
Other Municipalities	805,942
	$9,887,323

The CHAIRMAN: Gentlemen, is there anything else on page 13, or can we go over to page 14, "Proprietor's Equity Account"?

Mr. JACKMAN: I wonder if the number of employees in the Canadian National Telegraphs is available?

Mr. VAUGHAN: We can certainly get it for you, if we have not got it here. It may be here.

The CHAIRMAN: Are there any questions with respect to page 14?

Mr. VAUGHAN: No, we have not got it here, but we will get it for you, Mr. Jackman.

The CHAIRMAN: Page 14, "Proprietor's Equity Account"; "Capitalizaztion of Canadian National Railways."

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st. Dec., 1946	Transactions Year 1947	Balance at 31st. Dec., 1947
CAPITAL STOCK OF CANADIAN NATIONAL RAILWAY COMPANY	$ 18,000,000 00	—	$ 18,000,000 00
CAPITAL STOCK OF THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST:			
Initial stated value	$270.037,437 88	—	$270,037,437 88
Surplus earnings, years 1941-1945	112,502,061 64	—	112,502,061 64
Capital gains	19,105,651 38	—	19,105,651 38
Capital *losses*	*21,241,546 47*	$* *1,885,469 41*	*23,127,015 88*
	$380,403,604 43	$ *1,885,469 41*	$378,518,135 02
CAPITAL EXPENDITURES BY DOMINION OF CANADA ON CANADIAN GOVERNMENT RAILWAYS	$377,614,970 84	$* 62,795 28	$377,677,766 12
	$776,018,575 27	$ *1,822,674 13*	$774,195,901 14

* Details on page 19.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1947	Per Cent of Total
EQUITY CAPITAL:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of The Canadian National Railways Securities Trust	378,518,135 02		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,677,766 12	$ 774,195,901 14	37·8%
BORROWED CAPITAL:			
Held by the public	$582,859,761 89		
Dominion of Canada—Loans	689,470,348 51	1,272,330,110 40	62·2%
		$2,046,526,011 54	100·0%

* Excluding shares of subsidiary companies held by public—$4,570,940.

The CHAIRMAN: Now, under "Operating Revenues" on page 15, perhaps there will be some questions on that.

Mr. JACKMAN: Just to refresh our memories with respect to the capitalization of Canadian National, because we only meet it once a year, and then sometimes our minds forget the details. The capital stock of the Canadian National is $18,000,000. That arises from what, Mr. Cooper?

Mr. COOPER: We issued $18,000,000; that is, the Canadian National Railway Company issued $18,000,000 of stock to the dominion in exchange for the capital stock of the Canadian Northern Railway Company.

Mr. JACKMAN: For stock?

Mr. COOPER: $18,000,000 is the stock of the Canadian National Railway Company through which the dominion controls the Canadian Northern, the Grand Trunk Pacific, and the other companies in our system.

Mr. JACKMAN: And the next item is the capital stock in the Canadian National Railways Securities Trust, $378,518,135.02.

Mr. COOPER: You will remember that in the Capital Revision Act of 1937 governmental loans for capital which amounted to some $270,000,000 were exchanged for shares in the Securities Trust. And since 1937 the value of those shares has been increased by $108,000,000, which is the net of the profits of the railway during the war years less certain capital gains and capital losses which, under the terms of the Capital Revision Act, had to be added to or deducted from the proprietor's equity account, which also is equivalent to shares in the Canadian National System owned by the Dominion of Canada. The third item of $377,000,000 represents government expenditures on the Canadian government railways practically all prior to their entering the Canadian National System in 1922; in total, $774,000,000, which really represents the shareholders' equity account in the Canadian National Railway System.

Mr. JACKMAN: How much was written off in 1937, in the 1937 capital reorganization?

Mr. COOPER: The Grand Trunk and the Canadian Northern capital stock which, by arbitration awards, was said to have no value, and some debentures of the province of Canada prior to confederation, amounting in all to $262,000,000, were written off; and loans amounting to $270,000,000, which, as I mentioned, represented loans for capital purposes, were transferred from interest-bearing debt into equity capital; loans for deficits amounting to $373,000,000 were written off and interest on loans amounting to $530,000,000 also were written off.

Mr. JACKMAN: Making a grand total of how much in all?

Mr. COOPER: As far as the government is concerned, we wrote off $904,000,000, which represented loans for deficits and interest.

Mr. JACKMAN: $530,000,000 was accumulated interest?

Mr. COOPER: Yes. None of it was represented by assets. It is money that had been lost years ago, that is, prior to 1937; and it was always our contention that it had no place in the railway balance sheet; and that view was taken by the government when the Capital Revision Act was enacted, but no government money which had been used for capital purposes was written out. It is rather important to keep that in mind because the statement is made from time to time that the Capital Revision Act wrote down the capital investment in the Canadian National Railways. I do not think that is true. All the capital of the government is still in our capitalization, but to the extent of $270,000,000. It was changed from interest-bearing debt to equity capital.

The CHAIRMAN: Are there any other questions as to that, gentlemen? Now, operating revenue.

OPERATING REVENUES

	1947	1946
Freight	$338,440,473 29	$296,403,320 83
Payments under Maritime Freight Rates Act (20%)	4,141,529 39	3,909,878 07
Passenger	43,017,689 66	50,128,223 16
Baggage	159,926 67	182,522 20
Sleeping Car	3,176,570 61	3,587,104 21
Parlor and Chair Car	303,941 31	284,444 29
Mail	4,583,160 69	4,275,981 70
Railway Express Agency	460,112 11	118,269 78
Express	20,791,671 70	19,461,209 16
Other Passenger-train	19,479 13	41,901 84
Milk	478,090 37	504,275 89
Switching	4,061,705 77	3,334,010 96
Water Transfers	327,782 36	242,268 32
Dining and Buffet	2,488,583 51	3,104,899 44
Restaurants	304,198 06	281,704 48
Station, Train, and Boat Privileges	376,722 87	462,921 99
Parcel Room	94,459 66	118,919 06
Storage—Freight	174,740 50	140,305 04
Storage—Baggage	61,251 47	77,644 73
Demurrage	2,578,673 72	2,270,174 93
Telegraph Commissions (U.S.)	15,500 90	13,580 86
Telegraph—Commercial	7,685,919 00	7,340,019 34
Grain Elevator	293,964 15	205,476 07
Rents of Buildings and Other Property	784,272 74	868,635 14
Miscellaneous	2,662,906 54	2,524,982 72
Joint Facility—Credit	813,608 63	812,390 49
Joint Facility—Debit	*98,954 81*	*109,038 81*
	$438,197,980 00	$400,586,025 89

Mr. JACKMAN: Does the Canadian National require, proportionately, more capital expenditure than does the Canadian Pacific?

Mr. COOPER: I do not think so.

Mr. JACKMAN: But your rate of expansion, with new lines and improvments?

Mr. VAUGHAN: Our system is much larger than that of the Canadian Pacific, so it is reasonable that our capital expenditures might be larger.

Mr. COOPER: In the eight years, 1940 to 1947, our total capital requirements amounted to $59,000,000, which is approximately $7,000,000 a year; and that is not a lot of money for a railway system which has 24,000 miles of railway.

Mr. JACKMAN: During that time the Canadian Pacific, however, reduced its funded debt quite substantially.

Mr. VAUGHAN: But we have reduced our funded debt each year for a number of years back. We have reduced our funded debt very materially. For example,

in 1932 our fixed charges were $59,690,000, and they have been coming down each year until they are now $45,925,000.

Mr. JACKMAN: And your indebtedness was what?

Mr. COOPER: In 1932 our total indebtednes was $1,289,000,000; and in 1947 it was $1,272,000,000. There is a decrease between 1932 and 1947 in the capital debt of $17,000,000; that is in spite of our large expenditures.

Mr. VAUGHAN: And the fixed charges have been reduced $14,000,000 per annum, in that period.

Mr. COOPER: You might be interested in how much we spent on new equipment. From 1940 to 1947, we bought $123,000,000 worth of new equipment. In the same period we charged operating expenses for depreciation, $131,000,000. Since 1940, every bit of new equipment has been paid for out of revenue.

The CHAIRMAN: Questions on operating revenue on page 15?

Mr. HAZEN: There is a decrease of over $7,000,000 in passenger revenue last year as compared to 1946. What has been puzzling me for some time—I do not know whether Mr. Vaughan would care to answer it—is why the railway did not ask for an increase in passenger rates as well as freight rates in their application to the board?

Mr. VAUGHAN: That was dealt with this morning.

Mr. HAZEN: Oh, then I shall not go into it again.

Mr. VAUGHAN: I think you will find the answer in the record.

The CHAIRMAN: Are there any other questions on operating revenue? What about operating expenses, maintenance of way and structures?

OPERATING EXPENSES

Maintenance of Way and Structures	1947	1946
Superintendence	$ 4,840,954.29	$ 4,467,817.94
Roadway Maintenance	8,940,967.02	8,761,886.50
Tunnels and Subways	62,197.42	51,215.45
Bridges, Trestles and Culverts	3,330,862.76	2,859,062.67
Ties	7,704,258.03	6,168,103.68
Rails	3,988,418.63	2,825,137.53
Other Track Material	3,155,437.37	2,660,235.82
Ballast	1,683,977.42	1,721,467.58
Track Laying and Surfacing	19,247,121.00	18,381,101.75
Fences, Snowsheds, and Signs	843,287.73	648,759.21
Station and Office Buildings	3,153,298.98	2,801,982.31
Roadway Buildings	353,104.40	362,193.55
Water Stations	633,854.04	563,851.22
Fuel Stations	351,992.46	315,665.52
Shops and Enginehouses	2,340,796.59	2,023,021.72
Grain Elevators	31,741.24	43,447.21
Wharves and Docks	168,346.15	197,504.42
Telegraph and Telephone Lines	1,476,683.02	1,255,079.31
Telegraph—Commercial	1,762,135.87	1,475,967.63
Signals and Interlockers	1,395,017.96	1,219,980.43
Power Plants	45,418.97	17,268.47
Power Transmission Systems	225,189.93	185,378.39
Miscellaneous Structures	3,902.60	2,490.45
Road Property—Depreciation—U.S. Lines	885,430.05	903,079.96
Road Property—Retirements	881,509.63	1,860,910.12
Roadway Machines	767,998.96	642,934.84
Dismantling Retired Road Property	160,393.32	248,973.14
Amortization of Defence Projects	......	2,147.41
Small Tools and Supplies	1,097,950.76	887,800.55
Removing Snow, Ice, and Sand	5,211,918.39	3,192,937.07
Public Improvements—Maintenance	491,985.65	656,394.58
Injuries to Persons	625,460.07	718,369.45
Insurance	26,256.18	28,329.53
Stationery and Printing	94,426.33	79,530.04
Other Expenses	20,394.90	41,343.70
Maintaining Joint Tracks, Yards, etc.—Debit	1,046,479.08	909,722.71
Maintaining Joint Tracks, Yards, etc.—*Credit*	*1,876,138.16*	*2,084,511.95*
Right of Way Expenses	77,955.30	59,905.78
	$ 75,250,984.34	$ 67,156,485.69

The CHAIRMAN: Shall we turn to page 16, "Operating Expenses, Maintenance of Equipment"? Are there any questions on that item?

OPERATING EXPENSES—(*Continued*)

	1947	1946
Maintenance of Equipment		
Superintendence	$ 1,934,402.08	$ 1,782,438.48
Shop Machinery	2,741,996.35	2,216,834.46
Power Plant Machinery	188,884.32	133,788.39
Machinery—Retirements	229,112.85	371,828.28
Machinery—Depreciation—U.S. Lines	67,505.36	66,352.14
Dismantling Retired Machinery	7,985.36	4,345.76
Steam Locomotives—Repairs	26,367,192.23	23,160,658.70
Other Locomotives—Repairs	472,660.21	386,951.98
Freight-train Cars—Repairs	21,939,842.15	19,060,111.97
Passenger-train Cars—Repairs	12,009,531.49	10,559,617.41
Floating Equipment—Repairs	502,682.89	483,483.83
Work Equipment—Repairs	2,688,872.93	2,239,503.28
Express Equipment—Repairs	242,555.77	226,514.32
Miscellaneous Equipment—Repairs	239,453.96	209,953.42
Miscellaneous Equipment—Retirements	10,189.79	11,154.35
Dismantling Retired Equipment	139,136.38	79,149.70
Equipment—Depreciation	16,920,929.13	17,701,420.95
Express Equipment—Depreciation	180,881.07	170,773.90
Injuries to Persons	629,673.92	527,141.28
Insurance	43,679.41	31,396.38
Stationery and Printing	78,214.76	63,278.45
Other Expenses	12,362.68	47,555.34
Joint Maintenance of Equipment—Debit	344,209.78	412,118.29
Joint Maintenance of Equipment—*Credit*	*221,706.80*	*213,041.34*
Deferred Maintenance—Equipment	*8,000,000.00*	*6,000,000.00*
	$ 79,770,248.87	$ 73,733,329.72
Traffic		
Superintendence	$ 2,563,871.38	$ 2,394,625.68
Outside Agencies	3,301,452.06	3,139,627.52
Advertising	914,598.05	729,962.98
Traffic Associations	138,281.18	124,634.02
Stationery and Printing	370,485.21	329,271.27
Industrial Bureau	162,650.38	138,375.29
Colonization, Agriculture and Natural Resources	256,776.93	236,392.04
	$ 7,708,115.19	$ 7,092,888.80
Transportation		
Superintendence	$ 4,396,299.30	$ 4,105,576.51
Dispatching Trains	2,403,190.11	2,313,357.02
Station Employees	29,520,061.13	27,621,315.08
Weighing, Inspection, and Demurrage Bureaus	114,217.49	130,763.83
Coal and Ore Wharves	53,132.90	78,885.12
Station Supplies and Expenses	2,161,786.44	1,806,146.24
Yardmasters and Yard Clerks	5,704,768.21	5,256,575.69
Yard Conductors and Brakemen	10,405,411.00	9,304,920.39
Yard Switch and Signal Tenders	964,415.81	907,568.58
Yard Enginemen	6,373,538.52	5,871,797.48
Yard Motormen	1,016,493.58	762,186.62
Yard Switching Fuel	8,195,195.03	6,457,988.44
Yard Switching Power Produced	16,212.60	16,216.95
Yard Switching Power Purchased	95,253.61	83,300.13
Water for Yard Locomotives	218,394.36	228,337.42
Lubricants for Yard Locomotives	104,478.40	91,655.52
Other Supplies for Yard Locomotives	79,783.56	64,643.58
Enginehouse Expenses—Yard	2,440,970.60	2,237,604.10
Yard Supplies and Expenses	225,217.80	207,415.36
Operating Joint Yards and Terminals—Debit	2,222,772.22	1,909,538.93
Operating Joint Yards and Terminals—*Credit*	*2,208,534.26*	*2,087,574.92*
Train Enginemen	17,551,318.84	16,035,536.72
Train Motormen	178,054.36	133,665.09
Train Fuel	40,900,739.83	32,185,554.37
Train Power Produced	4,690.34	5,309.93
Train Power Purchased	58,038.70	49,531.11
Water for Train Locomotives	1,488,387.11	1,415,603.09
Lubricants for Train Locomotives	664,488.21	595,205.92
Other Supplies for Train Locomotives	382,989.36	331,374.48
Carried Forward	$135,731,765.16	$118,119,998.78

OPERATING EXPENSES—*(Continued)*

Transportation (Continued)

	1947	1946
Brought Forward	$135,731,765.16	$118,119,998.78
Enginehouse Expenses—Train	6,850,009.39	6,379,506.62
Trainmen	20,523,147.49	18,710,228.33
Train Supplies and Expenses	13,083,400.27	11,445,162.14
Operating Sleeping Cars	2,158,181.92	2,150,487.70
Signal and Interlocker Operation	683,722.20	650,174.62
Crossing Protection	984,908.49	979,709.04
Drawbridge Operation	173,046.27	166,447.98
Telegraph and Telephone Operation	480,888.75	464,575.98
Telegraph—Commercial	6,251,398.21	5,798,271.25
Operating Floating Equipment	1,319,354.00	1,265,123.95
Express	12,790,800.30	11,117,190.76
Stationery and Printing	951,961.01	795,388.85
Other Expenses	1,900,191.98	1,505,911.48
Operating Joint Tracks and Facilities—Debit	1,228,652.86	1,102,710.56
Operating Joint Trucks and Facilities—*Credit*	*513,714.22*	*494,378.63*
Insurance	16,504.93	21,676.65
Clearing Wrecks	500,922.61	496,239.06
Damage to Property	135,038.97	99,436.65
Damage to Live Stock on Right-of-Way	89,983.27	76,434.34
Loss and Damage—Freight	2,790,464.18	2,318,846.70
Loss and Damage—Baggage	10,679.58	16,416.69
Injuries to Persons	2,209,168.58	2,168,016.61
	$210,440,476.20	$185,353,576.11

Miscellaneous

	1947	1946
Dining and Buffet Service	$ 3,753,190.08	$ 4,193,154.21
Restaurants	307,144.24	280,544.06
Grain Elevators	155,626.58	195,697.54
Other Miscellaneous Operations	45,870.22	40,280.84
	$ 4,261,831.12	$ 4,709,676.65

General

	1947	1946
Salaries and Expenses of General Officers	$ 567,250.20	$ 539,613.28
Salaries and Expenses of Clerks and Attendants	7,218,837.70	6,904,342.48
General Office Supplies and Expenses	369,338.80	354,481.91
Law Expenses	449,639.62	429,900.22
Relief Department Expenses	27,500.00	27,500.00
Pensions	10,502,481.04	10,446,942.09
Stationery and Printing	314,437.41	280,250.94
Valuation Expenses	15,215.00	15,075.89
Other Expenses	175,981.91	148,898.15
General Joint Facilities—Debit	63,457.31	55,756.14
General Joint Facilities—*Credit*	*13,186.91*	*11,999.78*
	$ 19,690,952.08	$ 19,190,761.32

Mr. Gibson: These steam locomotives are very expensive to keep running, $26,000,000 for repairs. Perhaps you should get diesels.

Mr. Vaughan: We have a number of diesels on order.

Mr. McCulloch: Then, they would not need coal.

Mr. Vaughan: We cannot get anything like the amount of coal we need in Canada, anyhow, Mr. McCulloch.

Mr. Mutch: Did you say quantity or quality?

Mr. Vaughan: Quantity.

Mr. Emmerson: So far as locomotives are concerned, there is a great shortage of power on the system?

Mr. Walton: Yes.

Mr. Emmerson: That is one of the difficulties you have been encountering. Could you give us the percentage of unserviceable locomotives there are on the system today and also the number on the Atlantic region?

Mr. WALTON: I will give you those figures. We have not them with us, but they are readily available.

Mr. EMMERSON: Could you give those figures for both freight and passenger locomotives?

Mr. WALTON: I cannot give it to you that way. Some of these locomotives are interchangeable and work on either passenger or freight. I could give you the system figure and the Atlantic region figure.

Mr. EMMERSON: We have rented locomotives, have we not?

Mr. WALTON: Yes, we rented some locomotives during the winter months when traffic was the heaviest from the American lines to help out our supply. The Canadian Pacific did the same thing this winter.

Mr. EMMERSON: What did they cost us per day?

Mr. WALTON: $80 to $90 a day; that does not include making any repairs to them other than ordinary running work to keep them up from day to day. When they have run long enough to require repairs, they go to the home road which repairs them at their expense. The rental is all we are charged.

Mr. EMMERSON: For example, in a case such as recorded in the papers, when one of these locomotives blew up in the Turcot yard this past winter—

Mr. WALTON: That was a year ago.

Mr. EMMERSON: That would be chargeable to the Canadian National?

Mr. WALTON: That is right; we had to pay for that the same as we would have had to pay for one of our own if it had happened to it. We failed to return it to the owners.

Mr. EMMERSON: What has been the position in the past year in regard to the repair of locomotives? Have we been keeping up the repair of locomotives, in this way, are we manufacturing as many miles as we are consuming?

Mr. WALTON: No, we are consuming more miles than we are manufacturing; that is, in recent months.

Mr. EMMERSON: Are our locomotives running as much mileage per month as they used to do?

Mr. WALTON: Yes, we have figures on that. The daily mileage is higher than it has been in previous times. The figures are available and we can look that up.

Mr. EMMERSON: Could you give us the mileage?

Mr. WALTON: Mr. Cooper shows me some figures which indicate the average daily mileage per locomotive in freight service in 1939 was 101; in 1947, it was 141. In the passenger service the average daily mileage per locomotive in 1939 was 166 and in 1947, it was 219.

Mr. EMMERSON: That is per locomotive in service?

Mr. WALTON: That is right. Those are miles actually made by the locomotives running.

Mr. EMMERSON: Could you give us the monthly mileage on the locomotives which the railway owns, that is not those that are in service, but all locomotives? Could you give us the monthly mileage or the average monthly mileage in the last five years?

Mr. WALTON: We will get those figures, Mr. Emmerson.

Mr. MUTCH: In connection with repairs and maintenance, Mr. Chairman, are any curtain sleepers being converted now, in our own shops, to room cars?

Mr. WALTON: Conversion is going on in connection with cars similar to the Fort Lawrence type which are four bedroom cars and a large loung, and also cars similar to the Brantford type which consist of certain open sections plus

drawing room and two compartments. We have two sample cars of these types. Now, additional cars are coming along in our own ships to the same standards as these two.

Mr. MUTCH: Is it feasible to convert curtain sleepers to room cars?

Mr. WALTON: It is a very heavy job and expensive. What we would prefer to see done is that room cars be purchased and, in the changing of any cars which are converted, to use something like the Fort Lawrence type or the Brantford type which does not run into as heavy work on existing equipment.

Mr. MUTCH: There is a tendency to go in for more room cars?

Mr. WALTON: Yes, room cars are in demand today.

Mr. VAUGHAN: It is difficult to carry on these conversions and keep up with our ordinary repair work. We have a number of roomette cars on order with the car company.

Mr. MUTCH: I was looking ahead a little but, at the same time, looking back. I remember when we were not as busy in our shops as we are to-day and I was anxious to know if that question had been investigated and if the transformation was feasible.

Mr. VAUGHAN: The tendency today is, undoubtedly, towards closed accommodation. People, I think, are tired of the open Pullmans and, having that in mind, we are converting more of our cars to room cars and have bought a number of these duplex roomettes which probably will not be delivered for a year although we are promised delivery by late fall. I doubt if we will get them.

Mr. MUTCH: The cars of this type which you have are on the transcontinental run, are they?

Mr. VAUGHAN: Yes.

Mr. GIBSON: How many locomotives have you altogether?

Mr. WALTON: About 2,500.

Mr. MOORE: I should like to know if the mechanical department of the road has had sufficient time to compare the cost of maintaining steam power as compared to diesel power?

Mr. VAUGHAN: I do not think our information would be of much value. We have only had in service, up to the present time, diesel switch engines. We have no road diesels in service as yet, although we have some on order.

The CHAIRMAN: Are there any other questions on maintenance of equipment?

Mr. EMMERSON: There is one other question I wanted to ask concerning locomotives. In your return of locomotives or in the repair of locomotives in the shop, do you base your comparison on the number of locomotives shopped or repaired or do you figure out the amount of drawbar pull you are turning out and putting on the road?

Mr. WALTON: No, what is done is that locomotives are classified as heavy or light repairs. Repair No. 2 or No. 3 is a very heavy repair which may run into not only heavier machinery, but boiler work and firebox work. Nos. 4 and 5 repairs are getting lighter. When the engine is thoroughly overhauled, new available miles are calculated to have been put into that locomotive for service, and that is the way they are rated.

Mr. EMMERSON: In checking on your locomotive repairs and maintenance, have you any figures to show the comparative output of real power, the drawbar pull from month to month or year to year? How does it compare for the last five years? Is it going up or going down?

Mr. VAUGHAN: You mean the tractive effort of our locomotives?

Mr. EMMERSON: Yes.

Mr. VAUGHAN: It has been going up right along. It is considerably higher than it was in 1939. We have figures to that effect which we can give you.

Mr. WALTON: Of course, the size of our locomotives is increasing. One figure of which we have a note here is that, at the end of 1938, the total tractive effort, that is the number of pounds of tractive effort, was 108,000,000 all locomotives.

Mr. EMMERSON: That is at 100 per cent efficiency?

Mr. WALTON: No, that is allowing each locomotive its proper tractive effort according to the number of thousands of pounds of tractive effort it possesses. The total for the railroad was 108,000,000, whereas, at the end of last year it had risen to 112,000,000. The size of locomotive is rising. We are replacing some of the old small ones.

Mr. EMMERSON: As you go along, you use up a certain percentage of that, so what is the available usage of that locomotive. There is a certain mileage between shoppings which you have?

Mr. WALTON: Yes.

Mr. EMMERSON: You estimate you should have so many thousands of miles?

Mr. WALTON: That is right.

Mr. EMMERSON: Then, you consume that mileage.

Mr. WALTON: Yes,.

Mr. EMMERSON: Has the position of your effective power gone up or gone down, or have you been using up more than you have been putting back in?

Mr. WALTON: Lately, we have been using up more than we have been repairing in spite of the fact we have retained men who are now beyond the age of sixty-five, if they are physically fit to work and ready to do so. This repair department is the only department on the railroad in which we are extending the use of employees beyond the age of sixty-five. We are taking on additional men wherever we can get them if they are competent workmen in that line of work. In other words, we are not sparing any expense, as is indicated in this equipment statement here in the annual report, showing that reserves were used last year to the extent of $8,000,000. We are doing everything we can to overcome this locomotive situation, but it was run out so hard during the war and there has been no let up since. It is simply a case of putting forth every effort to overcome that situation, but we have not been able to do it yet.

Mr. EMMERSON: In the various shops, take the Atlantic region for instance, are you putting out as much work? Are you getting as much tractive effort out of the shops as you used to get out of them?

Mr. WALTON: I think so. I am only speaking from memory at the moment. The performance at the Moncton shop has been good.

Mr. EMMERSON: Has it been keeping up its efficiency in the last five years?

Mr. WALTON: It has not been dropping off.

Mr. HAZEN: I see there is an item here for train fuel $40,900,739.83. Mr. Vaughan made some mention of the fact that the railways could not get all the coal they needed in Canada. I wonder if he could give us a breakdown, and put it in the minutes, showing how much coal is obtained in Canada; how much from the United States; how much oil is purchased; how much from the United States and what percentage of the fuel is used in Canada and what percentage in the United States.

Mr. VAUGHAN: Yes, sir, we have all that information here and we will be glad to file it.

Mr. JACKMAN: In connection with this deferred maintenance of equipment, $8,000,000, as against $6,000,000; is that drawn down from the deferred maintenance account? It does not refer to the amount outstanding?

Mr. COOPER: No, sir, it is the amount drawn down.

Mr. JACKMAN: You are depreciating your equipment each year, now?

Mr. COOPER: Since 1940.

Mr. JACKMAN: How much did you spend—equipment and maintenance would not necessarily be the same—how much did you spend, first of all, on equipment maintenance during the year?

Mr. COOPER: $79,000,000. I should have said $87,000,000 and we took credit from the reserve for $8,000,000 which made the net expenditure $79,000,000.

Mr. JACKMAN: How much was your depreciation on the equipment?

Mr. COOPER: It is shown there, $16,920,000.

Mr. JACKMAN: So, you were only able to charge the system with $16,920,000 for depreciation of equipment and you have taken $8,000,000 from the cumulative fund. Your total expenditures were $87,000,000 to do the job, is that so?

Mr. COOPER: That is correct, and the depreciation rate is $3\frac{1}{3}$ per cent which gives our equipment an average life of 27 years. I think the rate is sufficient.

Mr. JACKMAN: At that rate, you have allowed for depreciation $16,000,000 and yet you have spent $87,000,000, even giving effect to the war years—

Mr. COOPER: You are talking about two different things. The $87,000,000 is the maintenance account for repairs and that sort of thing and including the $16,000,000 for depreciation. Depreciation has nothing to do with keeping the equipment in good order, it is only writing off the original cost.

Mr. JACKMAN: In other words, the maintenance of equipment is a vastly greater amount than the depreciation of it?

Mr. COOPER: Oh yes, four or five times.

The CHAIRMAN: Gentlemen, I believe it is six o'clock. Do you wish to meet again tomorrow morning at eleven and four in the afternoon?

Very well, gentlemen, there will be a meeting tomorrow morning at eleven and four.

The meeting was adjourned.

SESSION 1947-48

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 20, 1948

CANADIAN NATIONAL RAILWAYS—ANNUAL REPORT (1947)
and
CANADIAN NATIONAL, CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—BUDGET 1948.

WITNESSES:

Mr. R. C. Vaughan, C.M.G., Chairman of Board of Directors and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;

Mr. N. J. MacMillan, General Counsel, Canadian National Railways;

Mr. A. Fraser, Vice-President, Traffic Department, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

TUESDAY, April 20, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at eleven o'clock. Mr. S. M. Clark, the Chairman, presided.

Members present: Messrs Bourget, Chevrier, Clark, Emmerson, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Pouliot, Reid and Warren.

In attendance:

From the Canadian National Railways: Messrs. Vaughan, Walton, Cooper, May, MacMillan, Thompson and Messrs. A. Fraser, Vice-President, Traffic Department, L. G. Knowles, Freight Traffic Manager.

From the Department of Transport: Messrs. Lessard, Collins and Thornton.

The Chairman read a letter adressed to himself on April 17, 1948, by Mr. G. B. Isnor, member for Halifax, relating to Moore, McCormack Lines Incorporated.

Mr. R. C. Vaughan was recalled. He commented on Mr. Isnor's letter.

Mr. Alistair Fraser was called and examined on the subject matter raised in Mr. Isnor's letter.

After discussion, on this question, the Committee resumed its study of the annual report (1947) of the Canadian National Railways.

Mr. Cooper tabled information requested by Messrs. Nicholson, Jackman and Hlynka.

It was agreed to incorporated these items in the evidence.

Other information asked will be tabled later.

Mr. Vaughan's examination was continued. He was assisted by Messrs. Cooper, Walton and MacMillan.

At one o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at four o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot and Warren.

In attendance:

From Canadian National Railways: Messrs. Vaughan, Cooper, Walton, MacMillan, Thompson.

From the Department of Transport: Messrs. Lessard, Collins, and Thornton.

Also Messrs. G. B. Isnor, M.P. and J. A. Bonnier, M.P.

It was agreed to consider the T.C.A. annual report on Thursday, April 22 next.

The Committee concluded its study of the annual report (1947) of the Canadian National Railways.

Messrs. Walton and Cooper tabled further information requested at the morning sitting. It was agreed to incorporate these in the evidence.

Mr. R. C. Vaughan's examination was continued.

By leave of the Committee, Mr. Bonnier questioned the witness on station facilities at St-Henri, Montreal.

On motion of Mr. McCulloch, the annual report (1947) of the Canadian National Railways was adopted.

The Committee began and concluded the examination of the Canadian National, Canadian National (West Indies) Steamships Limited—Budget 1948.

Messrs. Vaughan, Cooper and Walton were jointly examined thereon.

On motion of Mr. Lafontaine, the Canadian National, Canadian National (West Indies) Steamships Limited—Budget 1948 was adopted.

Mr. MacMillan supplied additional information to Mr. Nicholson respecting freight and express rates.

It was agreed to hold two meetings on Wednesday.

At 5.30, the Committee adjourned until Wednesday, April 21, at 11 o'clock.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 20, 1948.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, I believe we have a quorum. I had a communication from Mr. Isnor which I mentioned yesterday. I should like to read it to the committee. Mr. Hazen brought the same problem before the committee yesterday and it has been discussed in the House. I think Mr. Vaughan mentioned that Mr. Fraser would be here, perhaps, to answer some of the questions. This is re the Moore-McCormack Lines Incorporated correspondence. It is dated April 17, 1948.

> Dear Mr. CLARK,—On February 11, 1948, the Honourable Lionel Chevrier, Minister of Transport, in speaking in the House quoted from a letter from Moore-McCormack Lines Incorporated, to an official of the Canadian National Railways, in respect to the transfer of the Moore-McCormack Lines Incorporated from Halifax to Portland, Maine. Later a request was made by Mr. King-Hazen, M.P. asking that this and other correspondence relating to this matter be tabled.
>
> Mr. Chevrier stated that a practice had grown up in the House over the years by which the Canadian National Railways are not required to produce correspondence or telegrams of this nature, so felt justified in declining to table said correspondence. On motion being put, the House supported the minister and the correspondence was not produced.
>
> I now wish to ask that a copy of all correspondence, telegrams and other documents exchanged between the Canadian National Railways or any official of said company and the Moore-McCormack Lines Incorporated, or employee or agent of said company during the year 1947 with respect to the matter of freight rates or the transfer of said lines from the port of Halifax, Nova Scotia, to Portland, Maine, be made available for the use of members of the committee.
>
> Trusting that your committee will, as usual when dealing with matters before committees, authorize that this correspondence be produced.
>
> Yours truly,
>
> (Sgd) GORDON B. ISNOR,
> *Member for Halifax.*

Gentlemen, Mr. Vaughan suggested Mr. Fraser would be here to answer Mr. Hazen's questions. Perhaps Mr. Vaughan desires to make a few comments?

Mr. VAUGHAN: The House seems to have disposed of the matter of the correspondence. We do not think it is desirable that our inter-departmental correspondence should be filed. If we started doing that sort of thing, every bit of our correspondence might be available. It would be a disastrous thing from the standpoint of the morale of the railway if we commenced filing correspondence on disciplinary matters and that sort of thing. The railway business is a very competitive business. While there is nothing in our correspondence which cannot

stand the light of day, as a matter of principle, we do not like filing our correspondence. It was for that reason I suggested yesterday that Mr. Fraser come up here so he could answer Mr. Hazen's questions directly.

Mr. HAZEN: You said you did not think those letters should be filed and made available to the committee. Could you tell us, then, how it was that one letter was made available, namely, a letter from Moore-McCormack Limited to Mr. F. J. Stock, dated December 9, 1947.

Mr. VAUGHAN: I think that was submitted to the Minister of Transport, was it not?

Mr. HAZEN: It was a letter from the Moore-McCormack Lines Incorporated to F. J. Stock, Traffic Manager, of the foreign freight department, dated December 9, 1947.

Hon. Mr. CHEVRIER: May I answer your question? You asked how it was that letter was made available. The letter was made available in reply to a charge you made in the House to the effect the Canadian National Railways had discriminated against certain interests in the ports of Halifax and Saint John. That letter was tabled and read simply to show that was not the case because, on the contrary, the officials of the Canadian National Railways made every attempt to keep the business in the ports of Halifax and Saint John.

Now then, you proceeded to make a motion to produce all of the documents. I took the position which my predecessors have always taken in matters of this nature, namely, it is the practice of the Canadian National Railways not to give out information which might be of use to their competitors, and the House upheld that position.

Mr. HAZEN: I will ask you a question. Do you think it is fair to attempt to refute a charge by producing one letter out of a big file of correspondence and that letter written after the whole matter has been completed? Do you think that is fair?

Hon. Mr. CHEVRIER: In the first place, I will answer that the letter was not taken out of a big file. I did not see any big file. I do not know what the file is.

Mr. JACKMAN: That is not an answer to Mr. Hazen.

Hon. Mr. CHEVRIER: Are you asking a question?

Mr. JACKMAN: You are not answering Mr. Hazen's question.

Hon. Mr. CHEVRIER: The committee will decide as to whether the answer to the question is a proper one or not and a member of the committee does not decide that. The chairman, perhaps, may say it is not an answer.

Mr. JACKMAN: Well, all right.

Hon. Mr. CHEVRIER: If it is not an answer, the chairman can order the witness to answer, but the witness is not obliged to answer.

Mr. JACKMAN: I was expressing my own view and not that of the committee. I do not think you thought otherwise.

Hon. Mr. CHEVRIER: I did not. If you want to ask a question I will be glad to answer it.

Mr. HAZEN: I do not think you are in a much better position than I am in connection with this matter. You say you have not seen the files. You do not know how many letters are in the file, so neither you nor I know what went on.

Hon. Mr. CHEVRIER: I do not pretend I know.

Mr. HAZEN: When you try to refute a charge by producing one letter, and that a cover up letter—

Hon. Mr. CHEVRIER: The charge I was trying to refute was not a charge having to do with the rates. I think I disposed of that in the debates very clearly. The charge I was trying to refute by producing the letter was a charge

to the effect that officers of the Canadian National Railways had discriminated against maritime ports; that is the only reason for producing the letter. It would not have been produced if, in your remarks, you had not made that charge.

Mr. HAZEN: I do not think we will get anywhere by discussing it.

Hon. Mr. CHEVRIER: Nor do I. I read the one paragraph of the letter to reply to your charge. Then, you insisted that because I read the one paragraph I should table the whole letter.

Mr. HAZEN: Yes.

Hon. Mr. CHEVRIER: Well, I did. Because I did that to accede to your request, now you come forward and suggest all the correspondence should be tabled. Your position is the unreasonable one, not mine.

Mr. HAZEN: I cannot insist, but I say it should be.

Mr. VAUGHAN: Perhaps you could get the information from Mr. Fraser.

Mr. HAZEN: I do not know what we can get from Mr. Fraser. What is your position?

Mr. FRASER: Vice-President in charge of Traffic.

Mr. HAZEN: What are your duties?

Mr. FRASER: Generally, I am in full charge of traffic.

Mr. HAZEN: Do you have to determine freight policies of the Canadian National Railways?

Mr. FRASER: They all come under my review.

Mr. HAZEN: Do you determine freight policies?

Mr. FRASER: In the final analysis, the president would have to determine them, but under him I do.

Mr. HAZEN: Do the directors have anything to say about it?

Mr. FRASER: I would not think so. I do not know of any case where they do, unless it would be a matter of very high policy.

Mr. HAZEN: Does the government or parliament have anything to do with it?

Mr. FRASER: I know of no case where they do, in so far as I am concerned.

Mr. HAZEN: What is the policy of the Canadian National Railways about traffic, about carrying freight, by and large? What is their policy about carrying Canadian goods over their lines?

Mr. FRASER: Well, that is a very broad question, Mr. Hazen, but the policy generally is to carry the maximum amount possible, both of freight and passengers, over our lines?

Mr. HAZEN: Is it the policy of the Canadian National Railways that the freight originating on its lines, not specifically routed otherwise shall, when destined for points in Canada be carried over the Canadian National Railways within Canada?

Mr. FRASER: Definitely, yes.

Mr. HAZEN: That is clear?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy of the Cnadian National Railways that the freight rates on export traffic from the point of origin to the point of destination shall, at no time, be greater via Canadian ports than via United States ports?

Mr. FRASER: Definitely, yes.

Mr. HAZEN: So, that is your policy?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy of the Canadian National Railways that all such traffic, not specifically routed otherwise by the shipper, shall be carried by the Canadian National Railways to Canadian ports?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy that the Canadian National Railways shall not, in any way within its powers, directly or indirectly, advise or encourage the transportation of such freight by routes other than those we have just mentioned?

Mr. FRASER: Yes.

Mr. HAZEN: But shall, in all respects, in good faith, use its utmost endeavours to fullfil the conditions upon which public aid was granted to the railways?

Mr. FRASER: Yes sir.

Mr. HAZEN: Namely, the development of freight through Canadian channels and Canadian seaports; now, is that your policy?

Mr. FRASER: Yes sir.

Mr. HAZEN: Now, did the Canadian National Railways, last autumn, reduce the freight rates on a number of commodities including newsprint timber and pulp, from Canadian originating points to Portland, Maine, the United States of America?

Mr. FRASER: Yes sir.

Mr. HAZEN: Did you reduce the rate on paper and paper commodities, including newsprint, by 10½ cents per hundred pounds or about 26 per cent?

Mr. FRASER: I will check the rates to see. We reduced them to the Halifax and Saint John rate.

Hon. Mr. CHEVRIER: Would you repeat that?

Mr. FRASER: We reduced the rate to Portland on the commodities mentioned by Mr. Hazen, to the same figure as to Halifax and Saint John, including lumber. I will get the figures on that in a minute.

Mr. HAZEN: I was going to ask about one or two items. How many items were reduced?

Mr. FRASER: There were nine, seven at first and then two latterly.

Mr. HAZEN: Have you reduced the rate on newsprint, pulp and paper commodities about 26 per cent? Have you reduced the rate on lumber about 20 per cent? Have you reduced the rate on pulp about 26 per cent?

Mr. FRASER: I will give you a case in point which is typical, if I may.

Mr. HAZEN: I am asking about percentages.

Mr. FRASER: The rate from Shawinigan Falls to Portland was reduced from 35 cents to 25 cents, roughly 30 per cent in that case.

Mr. HAZEN: It is more than I thought. Will you figure out what it is in the case of lumber and pulpwood?

Mr. FRASER: It is wood pulp, not pulpwood. From Pembroke for example to Portland, the rates on lumber were reduced by approximately 24 per cent.

Mr. HAZEN: What about wood pulp?

Mr. FRASER: It would be the same as newsprint.

Mr. HAZEN: That would be about 30 per cent?

Mr. FRASER: About 30 per cent, yes.

Mr. HAZEN: Prior to making these reductions, did the Canadian National Railways carry on negotiations with Moore-McCormack Lines Incorporated?

Mr. FRASER: Yes.

Mr. HAZEN: Is the Moore-McCormack Lines Incorporated one of the best known and most influential United States steamship lines?

Mr. FRASER: It is a very prominent United States line, yes.

Mr. HAZEN: When did those negotiations with Moore-McCormack commence?

Mr. FRASER: Negotiations with Moore-McCormack commenced in April, 1947.

Mr. HAZEN: Who carried on those negotiations for the Canadian National Railways?

Mr. FRASER: Mr. Pullen, General Freight Traffic Manager.

Mr. HAZEN: Mr. John Pullen?

Mr. FRASER: Mr. John Pullen.

Mr. HAZEN: Does Mr. F. J. Stock come under him?

Mr. FRASER: He does.

Mr. HAZEN: Did the Canadian National Railways approach Moore-McCormack Lines Incorporated, or did Moore-McCormack Lines Incorporated approach the Canadian National Railways?

Mr. FRASER: The Canadian National Railways approached Moore-McCormack.

Mr. HAZEN: Is Mr. F. J. Stock, Traffic Manager, Foreign Freight Department, of the Canadian National Railways?

Mr. FRASER: Yes.

Mr. HAZEN: Does he come under your jurisdiction?

Mr. FRASER: Under Mr. Pullen's, and then Mr. Pullen under mine.

Mr. HAZEN: Did Mr. F. J. Stock go to New York last April to discuss this matter with McCormack Lines Incorporated in their offices?

Mr. FRASER: Either he or Mr. Pullen did, I am not sure which. I think it was Mr. Pullen.

Mr. HAZEN: No.

Mr. FRASER: It was first Mr. Pullen and then Mr. Stock, you are correct.

Mr. HAZEN: Was this the commencement of the negotiations?

Mr. FRASER: Yes.

Mr. HAZEN: Did you accompany Mr. Stock?

Mr. FRASER: I did not.

Mr. HAZEN: On whose instructions did he go to New York.

Mr. FRASER: Mr. Pullen's.

Mr. HAZEN: Did you know he was going?

Mr. FRASER: I did not.

Mr. HAZEN: On his return did he report to you or to Mr. Pullen?

Mr. FRASER: To Mr. Pullen.

Mr. HAZEN: Did you ever go to New York to discuss this matter with Moore-McCormack?

Mr. FRASER: No, I did not.

Mr. HAZEN: Did Moore-McCormack or any other officials discuss this matter with you in your office in Montreal?

Mr. FRASER: No, sir.

Mr. HAZEN: Now, it appears from what you have told me that the Canadian National Railways took the initiative in this matter and approached Moore-McCormack about getting a reduced rate.

Mr. FRASER: Perhaps it would be helpful for the record if I told you why, Mr. Hazen.

Mr. MCCULLOCH: Go ahead, give him an answer.

Hon. Mr. CHEVRIER: I think the witness is entitled to tell us why. I am interested in knowing and I am sure the committee is.

Mr. FRASER: The situation was this; Moore-McCormack had a service all during the winter operating between Saint John and Halifax, a sailing a month. In April, they had a ship destined for Halifax but they gave public notice that the sailing was cancelled, that the ship would not go to Halifax but would proceed to Boston. We went to Moore-McCormack and suggested that was a hasty decision, and urged that perhaps they would not have to go to Boston but could continue their service to Halifax and Saint John. They flatfootedly refused to do it.

Thereupon, we said to them, "If you will not come to Halifax or Saint John, will you go to Portland?" The reason for that was that the Canadian National Railways could participate in the business to Portland. They said, "We will go to Portland instead of Boston, if you will give us, as you always have done in the past, equal rates with Halifax and Saint John". We said we would and they changed from the port of Boston to the port of Portland.

Mr. REID: You would have lost the freight, otherwise?

Mr. FRASER: Yes, definitely.

Mr. HATFIELD: Did the United States government have anything to do with this?

Mr. FRASER: They did not.

Mr. HATFIELD: The United States government owns the ships?

Mr. FRASER: It may well be so, I do not know.

Mr. HAZEN: You say the United States owns the ships?

Mr. FRASER: I say I do not know. It may well be so.

Mr. HATFIELD: The ships are operated by Moore-McCormack on a cost plus basis.

Mr. FRASER: It may be so.

Mr. HAZEN: On what date did the Canadian National Railways decide to reduce its rates to Portland, Maine?

Mr. FRASER: About November 1st. At the time the discussions took place, of course, it was in connection with the next winter's sailings because this particular April sailing was the last which would be made to the maritimes. They would then go as they did, to Montreal.

Mr. HAZEN: On what date did the rates become effective?

Mr. FRASER: November 17, 1947.

Mr. HAZEN: Was the question of reducing these rates placed before the directors of the Canadian National Railways?

Mr. FRASER: Oh, definitely not.

Mr. HAZEN: Did the directors of the Canadian National Railways ever give their approval to this reduction in rates?

Mr. FRASER: I would think not. Mr. Vaughan would have to answer that.

Mr. VAUGHAN: The matter was never submitted to them.

Mr. HATFIELD: Why not?

Mr. HAZEN: Never mind.

Mr. HATFIELD: I asked why not.

Mr. FRASER: I was told not to answer.

Mr. HAZEN: Oh, all right.

Mr. FRASER: I can hardly imagine any case in which a change in rate of this character would ever get to the Board of Directors. It is an adjustment which would normally be made by a rate clerk.

Mr. REID: I was going to ask if rates had to go before the directors. This is news to me, if they do.

Mr. FRASER: Only if a matter of high policy were involved.

Mr. HAZEN: All right, let us discuss the matter of the duties of the directors for a moment. I refer you to the Canadian National-Canadian Pacific Act, 1933, section 14 (2), which was slightly amended in 1936 when the trustees were removed and directors appointed.

Mr. FRASER: Yes.

Mr. HAZEN: Now, sir in that section, does it not state that.

> The trustees shall so direct, provide and procure that all freight destined for export by and beyond the sea, which is consigned within Canada for carriage on the national railways, either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian seaports.

Hon. Mr. CHEVRIER: There is no breach of that in this.

Mr. HAZEN: You can defend it afterwards. I am just asking if that is not a directive to the directors.

Mr. FRASER: The directors would have to answer that. The way we operate, any such understanding would be carried out by my department, that is by myself and my officers, and unless there was some breach of the directive the matter would not go to the directors.

Mr. HAZEN: You do not say that I have misquoted the section?

Mr. FRASER: No, I do not. I am sure you would not do anything like that.

Mr. HAZEN: Did the president of the Canadian National Railways know that this reduction had been made before it came into effect?

Mr. FRASER: He would have to answer himself, but I would think not.

Mr. VAUGHAN: I did not know about it. It was purely a routine matter. Those things do not come before the president—all of them.

Mr. FRASER: Nor the vice president.

Mr. VAUGHAN: No.

Mr. HAZEN: Does the use of Portland as an ocean terminal of a railway owned and controlled by the government of Canada give employment to United States workers?

Mr. FRASER: I would think so, yes.

Mr. HAZEN: Is there any law to compel the Canadian National Railways to reduce freight rates to Portland?

Mr. FRASER: Definitely not, nor do I know of anything that prevented them.

Mr. HAZEN: Was the reduction purely a voluntary one on the part of the C.N.R. officials?

Mr. FRASER: Yes.

Mr. HAZEN: Did the action of the Canadian National Railways in reducing freight rates to Portland, Maine, in the United States of America encourage the transportation of trade through American ports?

Mr. FRASER: No.

Mr. HAZEN: It did not?

Mr. FRASER: It did not.

Mr. HAZEN: Did it result—well, I will ask you another question. You say that the officials and directors of the Canadian National Railways were in all respects and in good faith using their uttermost endeavours to have Canadian

goods carried to Canadian ocean ports as the law provides and to develop trade through Canadian channels and other Canadian ports when they lowered the freight rate to Portland?

Mr. FRASER: Yes. I am satisfied that is so and the reason why I say that is this: The business had already gone from Canadian ports, the business was in Boston, and the only question was one between Portland and Boston.

Mr. HAZEN: This is only one line?

Mr. FRASER: Yes, that is right.

Mr. HAZEN: Was not financial aid granted to the Canadian National Railways by the people of Canada through its government on condition that trade be developed through Canadian ocean ports?

Mr. FRASER: I should think so, yes.

Mr. HAZEN: Did Moore-McCormack Incorporated during the summer months of 1946 make use of the port of Montreal?

Mr. FRASER: Yes.

Mr. HAZEN: Did Moore-McCormack Lines Incorporated during the winter season of 1946-1947 make use of the ports at Halifax and Saint John?

Mr. FRASER: Yes, up until April.

Mr. HAZEN: Last summer did the Moore-McCormack Lines make use of the port of Montreal?

Mr. FRASER: Yes.

Mr. HAZEN: During the past winter season, 1947-1948, did the Moore-McCormack Lines make use of the ports of Halifax and Montreal?

Mr. FRASER: Halifax and Montreal?

Mr. HAZEN: Halifax and Saint John?

Mr. FRASER: Yes.

Mr. HAZEN: Was it after the freight rates on the lines to Portland were reduced that Moore-McCormack Incorporated used the port of Portland in the state of Maine instead of—

Mr. FRASER: They were done concurrently, yes.

Mr. HAZEN: Was it in consequence of the rates being reduced that Moore-McCormack Incorporated used Portland?

Mr. FRASER: Yes, I think I answered that, Mr. Hazen. They agreed to leave Boston and come to Portland if the rates were reduced, by us.

Mr. HAZEN: Would it be correct to say it was in consequence of rates being reduced to the Moore-McCormack Incorporated?

Mr. FRASER: Yes, I think that is a fair statement, and it is also fair to add the rider that they did not leave Halifax or Saint John. It was predicated upon them actually being in Boston. They had been there and they had already had a sailing from there.

Mr. HAZEN: Now, there is a company known as the International Freighting Corporation. It is a shipping company in a big way, the I.F.C. lines.

Mr. FRASER: I am not very familiar, but I accept your statement.

Mr. HAZEN: Do you know if the I.F.C. lines—the International Freighting Corporation—used Saint John and Halifax as base ports for its South American services prior to the war?

Mr. FRASER: I do not know that, but I accept your statement.

Mr. HAZEN: Is it using those ports now?

Mr. FRASER: Again I would have to get the information; I do not know.

Mr. HAZEN: Do you know what ports it is using during the winter season?

Mr. FRASER: No.

Mr. HAZEN: Do you know whether it uses the port of Montreal during the summer season?

Mr. FRASER: I am sorry to say I am not informed. There is no particular reason why I should know, but I will find out.

Mr. HAZEN: Do you know that the Sheppard line, another American line, entered into competition last autumn or last winter for South-bound Canadian newsprint?

Mr. FRASER: No, but it might be so.

Mr. HAZEN: Do you know whether or not those ships went to Portland when the reduction in freight rates became effective?

Mr. FRASER: I do not know.

Mr. HAZEN: Do you know whether or not the Sheppard line uses—

Mr. FRASER: Yes, I understand as a matter of fact—to keep the record clear, the Sheppard line changed their services from New York to Portland. I think they have never been in Halifax or Saint John, so far as I am informed, but I will get you accurate information.

Mr. HAZEN: Can you tell me if it is the intention of the International Freighting Corporation and the Sheppard lines to use the port of Montreal or St. Lawrence ports this summer?

Mr. FRASER: I am sorry I could not tell you that, but I can find out. If you are sure of that I will accept it.

Mr. HAZEN: No, I am asking the question. I am not sure of a great many things. I will ask you this: traditionally, as a matter of fact, is it not usual for the ports of Halifax and Saint John to become the winter terminals of lines operating from Montreal or other ports on the St. Lawrence during the summer season?

Mr. FRASER: For many lines, yes.

Mr. HAZEN: And in the ordinary course of events would it not be natural for the people of the maritime provinces to expect the Sheppard line and International Freighting Corporation to use Halifax and Saint John in the winter if they use the Montreal or St. Lawrence ports in the summer if it were not for the fact that the rates had been reduced to Portland?

Mr. FRASER: No, that does not follow at all because they had already left the ports of Halifax and Saint John in the winter although they were in Montreal in the summer. The only port the Sheppard company uses happens to be New York. I do not know about the International Freighting Corporation. There are a great many lines who use Montreal in the summer that do not use Saint John and Halifax in the winter.

Mr. HAZEN: Name a few.

Mr. FRASER: Yes.

Mr. HAZEN: Were you with the Canadian National Railways when they opened up New London, Connecticut, as it terminal to handle autos exported to Canada in 1926?

Mr. FRASER: Yes. I think that was in 1919. I was not in the traffic department.

Mr. HAZEN: Is it the policy of the Canadian National Railways to endeavour to develop United States ports? Let us get back at that.

Mr. FRASER: Our policy is to endeavour to develop Canadian ports. As a matter of fact, under Canadian National management Portland almost dried up and fell apart.

Mr. VAUGHAN: I would like to interject there to say that as far as New London is concerned we have no boats sailing from there, and New London is not a port with us at all.

Mr. HAZEN: I admit that but you attempted to make it one of the ports.

Mr. VAUGHAN: No, not for export traffic. New London was used to transport goods from there to New York as part of a through route going to New York.

Mr. HAZEN: Is it not your tendency or has it not been in the past—has not pressure been brought to bear to develop American ports on the short haul?

Mr. VAUGHAN: Most decidedly not.

Hon. Mr. CHEVRIER: Mr. Chairman, I think that question is one of the most unfair questions that can be put because of its inference; and I object to that question, Mr. Chairman. The question was: is it your policy to develop American trade in American ports? I think that is a very unfair question, and I object to it, Mr. Chairman. If you want to examine the witness fairly all right, but I know that in a court of law you would not be allowed to put that question in that language. If you want to cross-examine the witness do it if you like; there is nothing to stop you, but be fair about it.

Mr. HAZEN: I do not see anything objectionable to the question.

Hon. Mr. CHEVRIER: The inference in your question is that the Canadian National Railways are directing trade to the United States. Well you know that is not so.

Mr. HAZEN: I do not know anything of the kind. I am asking the question. I do know that as a result of their action in reducing the rates to Portland not only have the ports of Halifax and Saint John lost the Moore-McCormack Lines but I say they are going to lose the Sheppard line and the International Freighting Corporation line that I have referred to.

Hon. Mr. CHEVRIER: That is exactly what the witness has already told you. that the movement of the ships was not diverted from Saint John and Halifax to Portland; it was diverted from Boston to Portland in order to give Canadian National Railways the trade which we otherwise would not have had. No one knows that better than you do, and yet you insist on this particular thing.

Mr. HAZEN: What are the operating expenses—there is no use of us getting into a controversy over this—I have my point of view and the Minister of Transport has his point of view—but I am saying this, that the people in the maritime provinces say that the government is not living up to its policy.

Hon. Mr. CHEVRIER: That is not correct.

Mr. HAZEN: For Canadian ports. I have quoted the Act and I have quoted the directions that were given to the directors of the Canadian National Railways.

Hon. Mr. CHEVRIER: And the witness has replied to that question concerning subsection 2 of section 14 of the C.N.-C.P. Act, and that has not been contravened in any way. So how can you make the statement you have just made?

Mr. HAZEN: That is a difference of opinion. Now, what were the operating expenses of the line to Portland in 1947?

Mr. FRASER: You would have to ask the operating officers that question; I would not have the remotest idea.

Mr. VAUGHAN: We have not got that information here. The Portland line is operated as part of our central region.

Mr. HAZEN: Well, you can get those figures; I suppose you have them on record.

Mr. POULIOT: I understand, Mr. Vaughan, as the minister stated, that the only change was from Boston to Portland and not from Halifax or Saint John to Portland.

Mr. VAUGHAN: That is correct.

Mr. POULIOT: That is the whole point.

Mr. HAZEN: Can you give us those figures?

Mr. VAUGHAN: Yes, we can get them for you.

Mr. Hazen: Will you put them on the record?

Mr. VAUGHAN: Yes; the operating expenses?

Mr. HAZEN: The total operating expenses. How much of the amount is paid in United States funds?

Mr. VAUGHAN: We can give you that.

Mr. FRASER: As a matter of fact, I can answer that. All freights to Portland on export business are paid in Canadian funds and are not paid in American funds.

Mr. HAZEN: Those are not operating expenses?

Mr. VAUGHAN: On our New England lines in the United States all the employees and the materials are paid for in United States funds.

Mr. HAZEN: I am asking for that, and what they amount to in United States funds. I do not know whether they were paid in United States funds or not. How much traffic has been routed to date to the Moore-McCormack Lines Incorporated at Portland since the rates were reduced on November 17 last?

Mr. FRASER: I cannot distinguish between Moore-McCormack and any other line, but the total shipments of exports to Portland amount to 25,547 tons. Just for the sake of the record, during the same period the traffic to Saint John and Halifax was 688,479 tons.

Hon. Mr. CHEVRIER: May I ask Mr. Fraser a question, Mr. Hazen?

Mr. HAZEN: Yes.

Hon. Mr. CHEVRIER: How many shiploads are represented in the 25,547 tons that you have mentioned?

Mr. FRASER: I should think five or six ships.

Mr. VAUGHAN: I would like to make this statement, that in 1947 there were only 261,000 bushels of grain shipped through Portland from December to March, and in 1946 there were 760,000. In other words, there was less than one-third of the quantity of grain went to Portland in 1947 as compared with 1946.

Mr. HAZEN: That would be more satisfactory to the people of the maritimes. The figures you gave were up to what date?

Mr. FRASER: The end of March 1948, from December of 1947 to March 1948 —the whole shipping season from the end of March. In percentage—that is approximately 4 per cent.

Mr. POULIOT: What is the percentage of the shipping through Portland compared to the shipping through Halifax and Saint John?

Mr. FRASER: I would think probably that is about the same—approximately 4 per cent.

Mr. POULIOT: Your shipping through Portland represents 4 per cent of what you would ship through Halifax and Saint John?

Mr. FRASER: That is right.

Mr. POULIOT: Over twelve months?

Mr. FRASER: No, during the winter.

Mr. POULIOT: What you ship to Portland during the winter season represents 4 per cent of what you ship during the whole year?

Mr. FRASER: No, sir, not for the whole year; 4 per cent of what we shipped during the same season—four months.

Mr. Pouliot: And during the balance, the eight other months, you shipped from Halifax and Saint John?

Mr. Fraser: Yes. Most of the shipping, of course, in the summer is done through Montreal, but there would be the odd ship at Halifax and Saint John.

Mr. Pouliot: It is done through Canadian ports?

Mr. Fraser: Yes.

Mr. Hazen: There is one other matter on which I would like to ask a question and that is in connection with the shipment of rye through Portland last autumn. I understand that last autumn there were 1,000,000 bushels of rye shipped through Portland?

Mr. Fraser: Yes, sir, about 1,000,000 bushels.

Mr. Hazen: Now, apparently one of the newspapers when this matter came to their attention got in touch with Mr. Hommey, the secretary-general of the French Supplying Council and they asked him about the matter and he said that he understood that the British ships were using the flat tops of aeroplane carriers to transport grain and that the facilities at Saint John and Halifax had been changed to handle this particular type of ship which made it difficult for them to accommodate ordinary freighters. Now, of course, that statement is incorrect. He also said in reply to a question that the elevators in Saint John and Halifax were full of grain for the United Kingdom and that is the reason they could not send them any. That was not correct. He said he was informed that Portland is just another Canadian port anyway, because the Canadian National Railways run there—you think that is not correct—and the maritimes do not like it as it is.

Mr. Fraser: I am perfectly sure he did not get it from me.

Mr. Hazen: He also said they had uniform charges to ship grain through Portland, which undoubtedly is correct; and it would not cost them more to ship out; the rate is no less. This statement must have been furnished to the French supply mission by someone who was looking for business; I do not know who it was—but was any investigation made—did any of your officials ever approach the French secretary-general of the French Supply Council or any of its officers about attending to this business?

Mr. Fraser: The situation as I understand it is that the French government were anxious to keep their shipments out of the way of the British food commitments which were moving from Halifax and Saint John. This is the information I got.

Mr. Hazen: May I ask where?

Mr. Fraser: I got it from Mr. Pullen's office; and the decision was entirely made by the French government. As you and I know, there is no reason why you cannot handle flat tops in Saint John, or any other type of ship.

Mr. Hazen: Are you sure the department did not go after the business?

Mr. Fraser: It came to us without going after it. My understanding is that the French government came to us—anyway the decision to use Portland was made by them, and they notified us—not the steamship line, but the French government.

Mr. Hazen: Would the officials of your company—you or those under you—make any effort to get that business to go through Halifax or Saint John?

Mr. Fraser: In this particular case I would think not because—

Mr. Hazen: Somebody in your department?

Mr. Fraser: No, pardon me, I was going to say this: you have read carefully what our duty is with respect to unrouted business which is not routed by the shipper. This business was routed by the shipper. We cannot say to the shipper who has routed his business that it should be diverted from Saint John to Portland

or from Portland to Halifax, and we do not do it. My understanding of our responsibility under the Act is that we do not have to do it. I understand that we are only concerned with business which is unrouted and which may go to one port or another.

Mr. POULIOT: Where you have freedom of choice.

Mr. FRASER: Quite so, sir.

Mr. POULIOT: It is a human right.

Mr. FRASER: The way it works is this: the shipper, whoever he may be—first arranges for space on his ship; then he has to get an export permit. Now, he chooses the route in accordance with the available space where he can get it. In those days there was not any unrouted business.

Mr. HAZEN: I am not clear on this one point: suppose that Moore-McCormack said to you, "We are not going to ship through Halifax and Saint John any more on account of the conditions which prevail", and which, I suppose were largely the fault of the Canadian National Railways?

Mr. FRASER: Oh, as a matter of fact, if you read the Moore-McCormack letter you will find that it is not the Canadian National Railways at all.

Mr. HAZEN: I could read a lot; different statements have been made by different companies; but I am not going into that.

Mr. FRASER: We cannot accept that responsibility.

Mr. HAZEN: Supose they said, "We are not going to ship that way," and with that you reduce the rates to Portland in consequence because you say you wanted to retain the business; was that it?

Mr. FRASER: Yes, for the Canadian National Railways.

Mr. HAZEN: Now, let us suppose that you did not reduce the rate to Portland, how would it have affected your business and to what extent?

Mr. FRASER: Instead of hauling it all the way to Portland we would have had to hand it over to another line at some junction point—one of the lines serving Boston and New York—the Boston and Maine—and taken less revenue than by hauling to Portland. We do not serve Boston.

Mr. HAZEN: You hauled 26,000 tons—25,000 tons; what revenue would you get from that?

Mr. FRASER: Well, I can give you that.

Mr. HAZEN: I am asking for information. You hauled 25,000 tons and received a certain amount of money for doing so. If you had hauled 25,000 tons a lesser distance how much less would your revenue of the railway have been?

Mr. FRASER: I will find that out. It would be several cents per hundred pounds less.

Mr. HAZEN: I would like to get that in dollars.

Mr. FRASER: I shall be able to do that for you.

Mr. POULIOT: Is the Moore-McCormack line an American line?

Mr. FRASER: Yes.

Mr. HAZEN: One of the largest and most influential lines.

Mr. FRASER: It would take a little time to get that information for you for this reason, that we will have to check each individual shipment; we will have to segregate the amount of newsprint and the amount of acetone, the amount of different things, because the rates and divisions are different. It would take time.

Mr. HAZEN: If this business was given to Moore-McCormack; if they had not gone to Portland and had gone to Boston, and this same amount of business had gone to them, what would be the difference?

Mr. FRASER: Three or four cents a hundred pounds. I am just picking this out of the air—approximately $150,000 to $175,000—no, I am sorry, it would be $15,000 or $16,000.

Hon. Mr. CHEVRIER: May I ask you one or two questions? Do I understand this correctly, that the Moore-McCormack line is an American line based at the port of Boston?

Mr. FRASER: And New York—both.

Hon. Mr. CHEVRIER: They operate normally in Canada through the port of Montreal in the summer months and through the ports of Halifax and Saint John in the winter months?

Mr. FRASER: That was true at that time, yes.

Hon. Mr. CHEVRIER: And what happened was that because of traffic congestion at some of these ports—which Mr. Hazen attributes to the Canadian National Railways and which you deny and with which I am not concerned at the moment—they decided to change their route. Now, what I am interested in knowing is how many ships and how much cargo in terms of ships were routed to the port of Portland and what does this mean in terms of ship loads?

Mr. FRASER: I think there were five ships.

Hon. Mr. CHEVRIER: Five ships per year?

Mr. FRASER: Of the Moore-McCormack company.

Hon. Mr. CHEVRIER: Of the Moore-McCormack company that would normally use the maritime ports?

Mr. FRASER: Yes.

Hon. Mr. CHEVRIER: In the winter season, I take it.

Mr. HATFIELD: How often did Moore-McCormack have a sailing?

Mr. FRASER: I think one a month, sometimes twice.

Hon. Mr. CHEVRIER: Mr. Hatfield, if you will allow me to continue, you can ask your questions afterwards. I have two or three more questions I should like to ask. Then, you say, you equalized the rate?

Mr. FRASER: Yes, sir.

Hon. Mr. CHEVRIER: To Portland, that is, to make the rate the same as it was to Saint John and Halifax?

Mr. FRASER: Correct.

Hon. Mr. CHEVRIER: In equalizating the rates, or in doing anything else which you have done, did you in any way commit a breach of the traditional policy of this country or of the Canadian National Railways?

Mr. FRASER: Not that I know of.

Hon. Mr. CHEVRIER: Are you familiar with the Canadian Northern Railway Act of 1911, which I should like to put on the record and which reads as follows:

Mr. HAZEN: Pardon me, now—

The CHAIRMAN: Could you not permit Hon. Mr. Chevrier to finish his remarks?

Mr. HAZEN: Are you not complimenting me by reading my summary of it?

Hon. Mr. CHEVRIER: No. If it is a compliment to you, I gladly make it.

Mr. HAZEN: I must say it is a compliment to me.

Hon. Mr. CHEVRIER: Then, you and I agree on this.

> The company must agree:
>
> 1. That all freight orginating on its lines not specifically routed otherwise shall, when destined for points in Canada, be carried over the railway lines within Canada.

In connection with this matter now being discussed, did the Canadian National Railways do anything which would be a breach of that clause?

Mr. FRASER: No.

Hon. Mr. CHEVRIER:

> 2. That the through rates on export traffic from the point of origin to point of destination shall at no time be greater via Canadian ports than via United States ports.

Did the Canadian National commit any breach of that clause?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER:

> 3. And that all such traffic, not specifically routed otherwise by the shipper shall be carried to Canadian ocean ports.

Did the Canadian National Railways commit a breach of that section?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER: Now then, I ask you this question: section 14 of the Canadian National-Canadian Pacific Act reads:

> The trustees shall so direct, provide and procure that all freight destined for export by sea which is consigned within Canada for carriage to national railways, either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian sea ports.

Has a breach of that section been committed by the Canadian National Railways?

Mr. FRASER: No, not that I know of.

Hon. Mr. CHEVRIER: Is it not traditional policy of the Canadian National Railways to encourage, at all times, the movement of freight or traffic on its own lines to Canadian ports?

Mr. HAZEN: A leading question.

Mr. FRASER: The leading answer would be, yes.

Hon. Mr. CHEVRIER: That is all.

Mr. HATFIELD: I should like to ask the witness whether Mr. Vaughan's speech in the city of Portland on July 4, 1947, had any effect in lowering the rates to Portland?

Mr. FRASER: None whatever.

Mr. HATFIELD: You know about that speech?

Mr. VAUGHAN: I did not make any speech in Portland?

Mr. HATFIELD: You were interviewed by the city manager of the chamber of Commerce.

Mr. VAUGHAN: Let me make a statement on that point. I did not interview them. Before leaving on the train at nine o'clock in the morning, these gentlemen came down to see me as a matter of courtesy. They said they were hopeful they could increase the business through the port of Portland by a substantial amount. I said, "How do you propose to do that"? They said, "By drawing business from Boston, New York and other United States ports." I said, "More power to you. We cannot help you on the Canadian business, but if we can assist you to get business over Boston or New York, we will do so."

Mr. HATFIELD: Here is what the newspaper says about your speech.

Mr. VAUGHAN: I did not make a speech, it was only a statement.

Mr. HATFIELD: You made a statement. They did not say to you they were going to take trade from Boston.

Mr. VAUGHAN: You are reading from a statement made in the newspaper by a reporter. I do not recall what was said now. I do remember that what he said was wrong and it was not properly reported.

Mr. HATFIELD: You said you were going to do everything you could to help the city of Portland.

Mr. VAUGHAN: I did not make that statement at all. I said we would do everything we could to influence business through Portland as against Boston and New York.

Mr. HATFIELD: Here is what the statement says—

Mr. VAUGHAN: That is a newspaper report given by a newspaper reporter.

Mr. HATFIELD: I was told by the city manager what you said.

Mr. VAUGHAN: I do not care what that says, I am telling you the context of what was said.

Mr. HATFIELD: You were coming back from the city of Boston after making arrangements to resume your service out of Boston.

Mr. VAUGHAN: I was coming back from Boston. I had been down there to see one of our Lady boats off. It does not carry freight out of Boston, it only carries passengers.

Mr. POULIOT: The question concerned three American cities?

Mr. VAUGHAN: Exactly.

Mr. POULIOT: New York, Boston and Portland?

Mr. VAUGHAN: Yes.

Mr. POULIOT: Was there any question about Halifax and Saint John?

Mr. VAUGHAN: No question about taking business from Canadian ports to Portland whatever.

Mr. POULIOT: From what you have said it was Portland in comparison with Boston and New York?

Mr. VAUGHAN: Absolutely.

Mr. POULIOT: And not Portland in comparison with Saint John or Halifax?

Mr. VAUGHAN: That is correct. The people in Portland know very well, we have told them time and again, that we could not divert business from Canadian ports to Portland.

Mr. HATFIELD: You invited these men to your private car. This photograph was taken in your private car.

Mr. VAUGHAN: That may be quite true. What has that got to do with it?

Mr. HATFIELD: You were going to do everything you could to help the city of Portland.

Mr. VAUGHAN: I said I was going to do everything I could to help Portland to get business against Boston and New York. I still say that and I think it is the duty of every Canadian National official to get business to Portland, so long as he does not divert business from Halifax or Saint John. It is keeping the business for the railway.

Mr. HATFIELD: You did divert business.

Mr. VAUGHAN: This business was going to New York or Boston, otherwise.

Mr. HATFIELD: There was a delegation came from the Argentine to interview you?

Mr. VAUGHAN: No.

Mr. HATFIELD: How many were there? I mean from the Argentine.

Mr. VAUGHAN: No, I did not see them.

Mr. POULIOT: An interview may be had, but it does not mean that interview is correctly reported?

Mr. VAUGHAN: That is correct. These statements against the Canadian National Railways and its officers are very unfair and very inaccurate.

I will tell you what happened during the war for the information of this committee. We had numerous excuses to divert business from Halifax and Saint John to Portland and, incidentally, it is only 290 miles to Portland as against 850 to Halifax and over 600 to Saint John via C.N.R. There is no rate to Portland which is lower than the rate to Saint John or Halifax, notwithstanding the difference in haul.

During the war, we could only get a very limited quantity of Nova Scotia coal. We actually railed coal from West Virgina and other points in the United States down into the maritime provinces so we could keep business rolling to these ports. We could very easily have said we could not get coal in the maritimes, so we will send the business to Portland.

What happened last spring when the strike occured in Sydney? We again railed coal all the way from the United States to New Brunswick and Nova Scotia to keep the business moving to Halifax and Saint John.

Mr. HATFIELD: What about the strike in the United States?

Mr. VAUGHAN: What has that got to do with it. We could have diverted business to Portland had we any desire to do so. Instead of that, we spent literally millions of dollars railing American coal into the maritime provinces to keep business flowing through the ports of Halifax and Saint John.

Mr. HAZEN: You had to keep it rolling through the ports of Saint John and Halifax in order to supply the overseas needs.

Mr. VAUGHAN: We could not get coal. We could have put the business through Portland and not have had to bring coal from as far as West Virginia. All I am saying is that you gentlemen are very unfair in your statements.

Mr. HATFIELD: I am talking about the Moore-McCormack ships.

Mr. VAUGHAN: The statement has been made and repeated time and again that Moore-McCormack were going to Boston or New York. All our officers did, and it was a proper thing for them to do, was to endeavour to hold the business for the Canadian National Railways which is owned by the people of Canada. Our people would not be true to their duty if they had not made every attempt to get the business for the Canadian National Railways so long as they did not divert it from Canadian ports. It has been proven beyond doubt that the Canadian National Railways officials took no action to divert business from Canadian ports.

Mr. POULIOT: I have another question to ask you concerning shipments through American ports. It is cheaper to make shipments through Portland than through Boston or New York?

Mr. VAUGHAN: Mr. Fraser could say whether the rates are the same or not.

Mr. FRASER: The rates are the same to Portland, Saint John and Halifax.

Mr. POULIOT: But to New York and Boston?

Mr. FRASER: We have made the rates under review lower than to Boston and New York.

Mr. POULIOT: Is the line shorter?

Mr. FRASER: Very much shorter.

Mr. HAZEN: How much did the Canadian National Railways spend last year on improvements or repairs to the port of Portland?

Mr. VAUGHAN: I could not say that. I think we spent very little. If you go down to Portland you will see our docks are falling into the water because of disuse. We dismantled one of our elevators because it was falling down on account of disuse.

Hon. Mr. CHEVRIER: May I ask you another question? The effect of what has been said here by Mr. Hazen and, I take it by Mr. Hatfield as well, is that Saint John and Halifax should, in effect, have a lower rate than the Portland port?

Mr. HAZEN: I did not say that.

Hon. Mr. CHEVRIER: That is what you said in the House of Commons and that is what you said in your statement this morning.

Mr. HAZEN: Whereabouts?

Hon. Mr. CHEVRIER: In the questions which you asked.

Mr. HAZEN: I object to you summing up the effect of my remarks. I think it is fair for you to ask questions the same as I did.

Hon. Mr. CHEVRIER: If you will permit me to continue, I will ask questions. Is it not a fact that the rates to these ports were on a parity before?

Mr. FRASER: Yes.

Hon. Mr. CHEVRIER: That is, Portland, Halifax and Saint John were on a parity?

Mr. FRASER: Prior to 1938.

Hon. Mr. CHEVRIER: Prior to 1938 they were always on a parity?

Mr. FRASER: Yes.

Mr. POULIOT: Even when Mr. Bennett was here? Let me re-phrase that question and say, even from 1930 to 1935 they were on a parity?

Mr. FRASER: Yes.

Mr. POULIOT: No change during that period?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER: What was done here when the rate was equalized was to put it in the same position as prior to that time?

Mr. FRASER: That is correct.

Hon. Mr. CHEVRIER: In other words, the rates were equalized, not lowered?

Mr. FRASER: Yes, the situation—have you finished?

Hon. Mr. CHEVRIER: Yes.

Mr. FRASER: I am a little bewildered by this. The situation is this; for some years the rates to Halifax were one cent per hundred pounds higher than they were to Saint John. The Canadian National Railways, itself, without directions or anything of that kind from anybody made them the same. They reduced the Halifax rate by one cent making it the same as the Portland rate. That situation continued until 1938.

Now, in 1938 the rates to American ports, including Portland, were increased. The increases authorized in those rates were from 5 to 10 per cent and increases were also authorized in the rates to Halifax and Saint John.

Hon. Mr. CHEVRIER: By the Inter-State Commerce Commission and the Board of Transport Commissioners?

Mr. FRASER: Yes. Those gentlemen who were shippers and who were using the rates on those commodities in question came to the railways and said they

were in a very difficult position. Their position was that they were just coming out of a depression. These rates affected, generally speaking, low priced commodities. These gentlemen besought us not to raise the rates on these commodities if we could possibly help it. We agreed not to raise them.

We might have been open to some criticism there, too, because someone who is shipping some of the other commodities might have said to us, "Well, that is a peculiar thing for you to do. You raised the rate on my commodity and you did not raise it on these commodities." There were a limited number of commodities only which were not raised but the rates were raised on all others in exactly the same way as to Portland. We thought we were doing the decent thing by doing that. We did not think we were doing anything unfair. I am rather astonished we do not get a little credit for that. This gave Halifax and Saint John no advantage whatever over Portland, nor did it give any disadvantage to Portland for the reason there were no sailings at Portland. Had there been ships at Portland, the Portland rate would have been held down in exactly the same way. I can only say to you that no railway man willingly carries what is known as a paper rate. You only change those rates which are immediately pressing you, so we continued that adjustment up until war broke out.

We did not take the increases at Halifax and Saint John amounting to, in some cases, 5 per cent and in other cases 10 per cent. We did not do that, I must confess, for Halifax and Saint John particularly; we did that to assist Canadian shippers who said if we did not do that they would have to go out of business, not go somewhere else through some other port, they just could not continue in business.

Then, war came and those rates were frozen for Halifax and Saint John. I need only say to you, at that time, there was no opportunity of raising them. Had there been such an opportunity, the rate to Halifax and Saint John might, then, have been raised and made the same as to Portland, giving us a great deal more revenue to Halifax and Saint John. However, rates were frozen and we could not change them.

When Moore-McCormack came to us, the rates were still frozen. The only way they could be equalized was by reducing the Portland rate. Had it happened otherwise, the Halifax and Saint John rates might well have been raised to the Portland rate, the net result being considerable more money for the Canadian National because of the heavier tonnage which moves through Halifax and Saint John. However by doing this we would not have got the business away from Boston so, instead of getting the Halifax and Saint John rate raised, we went along with the freeze and said we will do the next best thing and try to get the business to Portland. In reducing the rates, and not increasing the Halifax and Saint John rates, we thought we were doing a pretty decent thing, and a national thing.

Hon. Mr. CHEVRIER: You were, in my opinion.

Mr. FRASER: I hesitate to say whether it will be done again, but $15,000 is not to be sneezed at.

The CHAIRMAN: Gentlemen, I think you have had a full discussion of this question this morning.

Mr. NICHOLSON: There was a letter read from Mr. Isnor requesting that this correspondence be tabled. I think the Canadian National Railways would be placed in a most uncomfortable position if members were able to ask that correspondence be tabled. However, I must register my protest at the minister selecting one letter from a large file such as this when other members are not free to have access to that sort of correspondence. I hope it will not happen again.

Hon. Mr. CHEVRIER: I thought I had explained why I did that. The only reason I did it was to reply to the charges made by Mr. Hazen in the House.

I had no other way of replying to them other than making a statement, and reading the pertinent part of the letter. Since the statement was made in the letter. I quoted the paragraph containing that statement and Mr. Hazen demanded, that I then file the whole letter.

Mr. NICHOLSON: I think a very satisfactory explanation has been given for what the C.N.R. has done. I think if you had given that explanation without referring to the confidential letter, it would have been sufficient.

Hon. Mr. CHEVRIER: I tried to do that. However, you know that on a motion for the production of papers a member is out of order if he attempts to make a second statement. If I had been given the opportunity of making a second statement, that is what I would have said.

Mr. HATFIELD: Did not the representatives of Moore-McCormack call on the minister before the rates were reduced?

Hon. Mr. CHEVRIER: I am not a witness, but have no objection in saying that I do not know anyone representing Moore-McCormack; I have never seen anyone from that Company and no one called on me to discuss the matter.

Mr. HATFIELD: There was a man here representing Moore-McCormack for a week or two weeks before these rates were reduced. He told me he was here to interview you or an official of your department and he had seen the president in Montreal.

Mr. VAUGHAN: He never saw me. I never saw any Moore-McCormack man.

Hon. Mr. CHEVRIER: He did not see me. He did not see the deputy minister of my department.

Mr. HATFIELD: Did he see any official in your department?

Hon. Mr. CHEVRIER: He saw no officials, so I am informed by my officials.

The CHAIRMAN: There is one thing I should like to say. The question of Mr. Isnor's letter was settled in the House by the House itself. I think all the questions have been asked and answers have been given. Let us turn to page 16.

Mr. NICHOLSON: I understand some information was to be made available this morning. Could we have that now?

The CHAIRMAN: Just before you do that, if the committee will agree, Mr. Fraser has one more answer to make.

Mr. FRASER: Before I finish I want to say, just so the record will be clear, that while the Canadian National Railways are carrying the whole burden of this complaint, exactly the same action was taken by the Canadian Pacific Railway.

Mr. HAZEN: But after you took action.

Mr. FRASER: As a matter of fact, the Canadian Pacific published its rates shortly after we did. We agreed with them, before the rates were published that we would both publish the same rates. It is hard for us to believe that anyone would imagine that the Canadian Pacific, who have their own ships at Saint John, would take this action to divert business to Portland and give it to Moore-McCormack or anybody else.

I wanted to make it perfectly clear. Everyone seems to lose sight of the fact that the Canadian Pacific were equally to blame or deserve equal credit, as the case may be.

Mr. HATFIELD: Not at all, does the Canadian Pacific not have newsprint mills at which you do not have facilities for picking up this freight? They had to do it to compete and get that freight?

Mr. FRASER: Not at all; we both sat down together and discussed our policy with respect to the equalization of the rates.

The CHAIRMAN: I think that answers the question, Mr. Hatfield. They agreed before the rates were published. Let us turn to page 16, under traffic.

Mr. Cooper will file these reports for which requests were made yesterday and then we will commence with page 16, traffic.

Mr. COOPER: Mr. Nicholson asked what the result of the Canadian National Insurance Fund had been for the last ten years. Mr. Jackman asked for the number of telegraph department employees in the service in 1947. Mr. Jackman asked for the acreage of unsold land in western Canada divided between the provinces of Manitoba, Saskatchewan and Alberta. Mr. Nicholson asked for a comparison of mail revenue in comparison with miles operated as between the Canadian National and the Canadian Pacific. Mr. Hlynka asked for a division of our revenues and expenses for the year 1947, divided between lines west and east of Port Arthur.

I now table the answers to those questions which might be incorporated in the minutes of the proceedings of this committee.

Question by Mr. A. M. Nicholson

Result of C.N.R. Insurance Fund—10 years—1938 to 1947 inclusive.

—	Income		Expenses		Net income
	Premiums	Net income from investments	Losses	Administration expense	
	$	$	$	$	$
1938	42,154	583,712	305,939	15,213	304,754
1939	32,962	826,811	295,468	15,213	549,092
1940	47,775	496,171	410,107	12,917	120,922
1941	51,636	258,667	413,190	14,871	*117,758*
1942	64,685	492,250	374,968	16,846	165,121
1943	197,857	562,313	518,725	18,105	223,341
1944	98,431	1,523,461	389,470	21,696	1,210,725
1945	131,627	1,046,687	1,692,228	22,435	*536,349*
1946	119,727	424,810	562,016	23,163	*40,642*
1947	102,397	597,346	400,598	21,860	277,285

Question by Mr. H. R. Jackman

Number of Telegraph Department employees in service in 1947: 3,878.

Question by Mr. H. R. Jackman

Province	Acres
Manitoba	10,288·30
Saskatchewan	233,507·98
Alberta	4,567·90
Total Acreage	248,364·18

Question by Mr. C. H. Nicholson

Comparison of mail revenue to mileage operated—Canadian National vs Canadian Pacific:

	Dominion Bureau of Statistics	
	C.N.R.	C.P.R.
Average *miles* of road operated	21,735·7	17,034·1
Ratio of total miles operated	56·1%	43·9%
Mail revenue	$3,830,045	$4,172,010
Ratio of total revenue	47·8%	52·2%

Questions asked by Mr. A. M. Nicholson and Hlynka

Revenues, expenses and net revenue, year 1947, divided between lines West and East of Port Arthur:

	Revenues	Expenses	Net
Lines *West* of Port Arthur and Armstrong	$119,964,915	$110,207,860	$ 9,757,055
Lines *East* of Port Arthur and Armstrong	257,340,180	236,693,906	20,646,274
U.S. Lines	60,892,885	50,220,841	10,672,044
Total	$438,197,980	$397,122,607	$41,075,373

Mr. NICHOLSON: I enquired about the rates on eggs to Regina and Ottawa.

Hon. Mr. CHEVRIER: I hope that inquiry will not take as long as the Portland case.

Mr. VAUGHAN: They tell me they will file that information in the morning.

The CHAIRMAN: We will file that.

Mr. NICHOLSON: It should be a simple matter to obtain that information.

Mr. MACMILLAN: We are trying to give you the rates on which the traffic actually moves. I think the president, yesterday, in answer to one of your questions, stated there was a possibility this might be an agreed charge. There is a certain volume of traffic which moves on the terms of agreements, contemplated by the Transport Act, under which a shipper covenants to deliver to the railway all his traffic in consideration of which a specific rate is designated. Eggs is one of the commodities frequently handled in that manner. We want to give you a comprehensive statement of the situation.

Mr. NICHOLSON: The minister had some information available in that connection on April 15 when he replied to a question by Mr. Coldwell. I should like to have that information before the committee completes its task. I understood the president to say yesterday there was not any discrimination against western points, that the increases have been made all across Canada.

Mr. MACMILLAN: That is right.

Mr. NICHOLSON: My information is there is a difference; that the rate of increase in Ontario is not as high as it is in Saskatchewan. I should like to find out whether I am wrong or not. How long will it be before I can obtain that information?

Mr. MACMILLAN: We could give it to you by tomorrow.

Mr. VAUGHAN: It would be in your interest if we could give you a comprehensive statement rather than picking out something here and there which might be misleading. We will have that information for you in the morning.

Mr. EMMERSON: I should like to ask Mr. Walton one or two questions. What is the ratio of apprentices to mechanics in the various shops?

Mr. WALTON: Our regulations provide for one to five.

Mr. EMMERSON: Could you say what is the actual ratio now, say at the end of 1947, for the whole system as well as the Atlantic region, not of the various apprentices but the total number of apprentices?

Mr. WALTON: I have not that information with me. What you want is the ratio of apprentices to mechanics at the end of 1947 lumped into one figure.

Mr. EMMERSON: For the Atlantic region and for the system.

Mr. MCLURE: Last year, I asked the president if there would be any opportunity for our province to have an allocation of a certain number of apprentices. Due to the fact that our shops were moved from Charlottetown to Moncton, we have not had apprentices for a number of years. Applications are always coming in from fellows who want to learn the trade. At that time, I think the statement was made that proper allocations would be made for apprentices coming into the Moncton shops, based on the population of the three maritime provinces?

Mr. WALTON: That is correct.

Mr. VAUGHAN: I recall you asking that question.

Mr. WALTON: I had occasion to look that up for the year 1947. Our records show that on the Atlantic region we took on 15 apprentices, three of whom were from Prince Edward Island. They were the only three applicants from the island. So far as we can, we will follow that proportion which is, approximately, a reasonable pro-rate as between Prince Edward Island, New Brunswick and Nova Scotia.

Mr. POULIOT: With reference to the two questions which have been put to you by Mr. Emmerson and Mr. McLure, do I understand that you mean there is one apprentice—

Mr. WALTON: One to five, that is one apprentice to five mechanics.

Mr. POULIOT: Will you please check up, for my personal information, the number of apprentices at Riviere du Loup? I believe you will be surprised to learn that the number of apprentices is far below that. I hope it will be corrected in due course.

Mr. WALTON: I will be glad to do that.

Mr. POULIOT: It is impossible to get apprentices at Riviere du Loup. The situation has been improved since Mr. Johnson has been in Moncton. He has done a marvellous job which I hope will be continued by Mr. Robinson. Before that, the situation was not good. We suffered injustices from Moncton continually. Because of the actions of former superintendents, Mr. Johnson had a very difficult job, but he improved conditions. He did exceptionally well and I am sure that he will do well wherever he is. I hope his successor will follow in his footsteps.

The CHAIRMAN: Are there any other questions concerning traffic?

Mr. JACKMAN: Could we have on the record how many new employees were taken on during 1947, not ex-service men, who were resuming their positions with the company, and of that total how many were university graduates?

Mr. VAUGHAN: I think we can get that for you.

Mr. JACKMAN: The matter of interest charges came up yesterday and I should like to have on the record a table showing the amount of interest charges on funded debt and government loans separately and in the aggregate, expressed as a percentage or as a decimal of: (a) total operating revenue; (b) net operating income—or should I use the term "net operating income"?

Mr. COOPER: I am not sure which you have in mind. If you mean the difference between revenues and expenses you should use the term "net operating revenue"; if you want to include taxes, joint facility rents and equipment rents, you should use the term "net railway operating income"; but if you want to speak of the final result you should use the term "net income". I am not sure which of the three you wish.

Mr. JACKMAN: I want it for comparative purposes and on your statement I think you have the figure for net railway operating income. That would probably be the best one for my purposes.

Mr. COOPER: All right, sir.

Mr. JACKMAN: (c) Net available for payment of interest. I should like to have those figures for 1939 and for your best year, 1944 or 1945, was it?

Mr. COOPER: When you speak of "net" in relation to the amount available for payment of interest, the amount in 1947 was $27,939,000.

Mr. JACKMAN: I want it as percentages.

Mr. COOPER: Our interest was $43,000,000, which would be something like 150 per cent. Is that the figure you want?

Mr. JACKMAN: It would result in a minus figure. You have a deficit figure.

Mr. COOPER: Yes, $15,000,000.

Mr. JACKMAN: Which was your best year during the war? I leave that to you to find out.

Mr. COOPER: All right.

Mr. JACKMAN: Or for 1947. And then I should like to know what were the interest charges for the C.N.R., the Grand Trunk Pacific and the Grand Trunk Railway. Does that include the Transcontinental? It was C.N.R., was it not?

Mr. COOPER: The Transcontinental was a Canadian Government railway and it had no fixed charges.

Mr. JACKMAN: I wanted the railways which went into the Canadian National Railway System.

Mr. COOPER: I can give you that now.

Mr. JACKMAN: The C.N.R. and the Grand Trunk Pacific and the Grand Trunk Railway.

Mr. COOPER: In 1922, which was the year prior to the amalgamation, the interest charges of the railways which entered into the consolidation amounted to $35,123,236.

Mr. HATFIELD: How many perpetual bonds have you still outstanding?

Mr. COOPER: They are set out, Mr. Hatfield, on page 20 of the report. I would say between $13,000,000 and $14,000,000.

Mr. HATFIELD: They carry an interest of 7 per cent, do they not?

Mr. COOPER: No, sir, there are no 7 per cent interest bonds; some are at 5 and some are at 4 per cent.

Mr. HATFIELD: You cannot refund those bonds, can you?

Mr. COOPER: No, sir, you cannot call a perpetual security—you could negotiate, possibly—but you remember, no doubt, that during the war all the securities held by U.K. residents, including perpetuals, were repatriated.

Mr. HATFIELD: I know that.

Mr. COOPER: And far the greater portion of our perpetual securities were retired at that time.

Mr. HATFIELD: What perpetual securities you now have are still held in Canada or the United States?

Mr. COOPER: They are held in Canada, the United States or Europe, excluding the United Kingdom. There are some in Ireland.

The CHAIRMAN: Mr. Jackman, you wanted to finish your questions.

Mr. JACKMAN: In 1922 the Canadian National Railway System was formed; is that the date?

Mr. COOPER: January 1, 1923.

Mr. JACKMAN: Were there any bonds on the Intercolonial Railway at all?

Mr. COOPER: No, sir.

Mr. JACKMAN: How much of those charges have been written off by reason of writing off debt or transfer of the proprietorship account? I am not asking for that now. What is the amount of interest charges on debt incurred since the

government took over the C.N.R. system, less refunding of previously incurred debt? Will you give me those figures later?

Mr. COOPER: Yes.

Mr. MOORE: I notice an article in the Winnipeg *Free Press* stating that a token payment was to be made on taxes on railway property in the city of Winnipeg. Are negotiations under way now for railway properties to be taxed?

Mr. MACMILLAN: That is right, sir. The situation in Manitoba is that we have never had municipal taxation within the province of Manitoba until the current year and this year the railways become liable to some form of municipal taxation. Normally there is a Railway Assessment Act which determines the extent to which railway facilities become taxable. The city of Winnipeg has not any special provisions in its charter, and rather than introduce special provisions to this section, the Manitoba legislature, which is now in its dying days—we have had negotiations with them, using as a base very largely the Ontario Assessment Act. It will be for the term of one year and at that time it will be regularized by an amendment of the statute of some nature.

Mr. MOORE: I noticed that the city of Halifax has a particularly unique problem in that a large amount of their property is owned either by the dominion government or by the transportation companies, which is not taxable. Will the C.N.R. also have to pay taxes in the city of Halifax on their properties?

Mr. MACMILLAN: We make a grant to the city of Halifax in lieu of taxation. The property there is vested in the name of the dominion Crown and as such is exempt from taxation.

Mr. LOCKHART: Are there varying rates of compensation in different regions? In certain sections of Canada are the rates different from what they are in other sections, depending upon the municipal demands?

Mr. MACMILLAN: Yes, it depends upon the terms of the provincial statute to establish municipal taxation.

Mr. LOCKHART: Of the particular province?

Mr. MACMILLAN: Yes.

Mr. LOCKHART: Do you set it up in regions or how is it set up—in districts?

Mr. MACMILLAN: You mean the administration?

Mr. LOCKHART: Any compensation granted to the municipalities—is it done by districts?

Mr. MACMILLAN: It is done by municipalities.

Mr. LOCKHART: By municipalities. Does that mean urban or rural municipalities as well?

Mr. MACMILLAN: In Ontario it is for both rural and urban.

Mr. LOCKHART: You have a table set up for that now?

Mr. MACMILLAN: Yes, we operate under the terms of the Ontario Railway Assessment Act.

Mr. LOCKHART: Have you anything compiled at the present time which would show what that is in a particular municipality?

Mr. MACMILLAN: Yes, we could give you the taxes.

Mr. LOCKHART: Could that be prepared without much trouble?

Mr. MACMILLAN: I think so.

Mr. VAUGHAN: That statement was filed yesterday.

Mr. LOCKHART: I am sorry. I was not here. I was detained at home. I was wondering if anything had been said about it. That is going to be available?

The CHAIRMAN: I think that was tabled yesterday. Are there any questions on transportation on page 16?

Mr. JACKMAN: With regard to maintenance of equipment I notice in the auditors' report the following:

> Maintenance of equipment accounts reflect the utilization during the year 1947 of $8,000,000 from the deferred maintenance reserve. No similar utilization of the reserve was made in respect of maintenance of way and structures.

Further on it says:

> . . . subject to the utilization of the unexpended balance of $25,000,000 in the deferred maintenance reserve, the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year.

Does that mean that the condition of certain of the railways' properties are not in as good a state as they should be and will not be until you are able to spend these moneys?

Mr. VAUGHAN: Our lines are in an entirely safe condition, but we thought, so long as that condition exists, it was more desirable to put the extra maintenance on our equipment and get it in shape and modernize it because that equipment got a terrible beating during the war and we are now only able to get at it.

We are, of course, doing a large amount of work on maintenance of way, and we would have done more, had material and men been available. The line is being maintained in a safe condition and we are spending, notwithstanding the fact that we do not apply any deferred maintenance money to it, a large amout of money on ballasting and new rail, new bridges and everything that goes into the improvement of the structure.

Mr. LOCKHART: Are you still restricted because of the unavailability of employees and the lack of satisfactory employees?

Mr. VAUGHAN: Yes. More men are becoming available for track work now. We are short of skilled help in our shops.

Mr. NICHOLSON: I suppose there is an increase in the use of fuel. Ostensibly you are using fuel from the Lloydminster field? Is it satisfactory; and can the amount be increased?

Mr. VAUGHAN: Yes, we have been taking all the oil these people could give us. It is a heavy oil, but we are able to use it satisfactorily.

Mr. NICHOLSON: Where is it being used?

Mr. VAUGHAN: West of Jasper in the territory where we have oil-burning locomotives.

Mr. NICHOLSON: In what territory are you using the oil?

Mr. VAUGHAN: West of Jasper. Nearly all our engines west of Jasper are oil burning. There are a few coal burners.

Mr. NICHOLSON: Is it going to be possible to use more of this oil on these oil burners?

Mr. VAUGHAN: Certainly, if the oil is available at a satisfactory price we will use it.

Mr. NICHOLSON: It has been quite satisfactory, has it?

Mr. VAUGHAN: Yes, it has been satisfactory.

Mr. McCULLOCH: Is anything going to be done about straightening the line between New Glasgow and Mulgrave?

Mr. VAUGHAN: That matter, as you know, has been considered on several occasions, but it is not active at the present time.

Mr. JACKMAN: I still do not get clear exactly what is referred to in the auditors' report. Perhaps we might leave it until we discuss the auditors'

report, but it does qualify the proper state of repair and efficient operating condition by the contingency to spend the balance of the $25,000,000. Now, what particular properties would not be in a proper state of repair: "in an efficient operating condition"? You say you have spent the money on railway stock as much as you could, but that there are certain other properties that are not in a proper state of repair or in an efficient operating condition until this money is spent. What does that refer to?

Mr. VAUGHAN: That refers to items such as ballast. We are catching up on the work that was deferred during the war, but certainly lines are being maintained in a safe condition and we will continue to do work from time to time to improve their condition.

Mr. JACKMAN: Do you agree with what the auditors say in regard to maintenance? As I have mentioned, the wording is: "fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition . . . subject to the utilization of the unexpended balance of $25,000,000."

Mr. VAUGHAN: I do not know what Mr. Matthews meant by that. Perhaps he can tell you.

The CHAIRMAN: Perhaps you should leave that to a later time.

Mr. JACKMAN: I want to get the railways' point of view, anyway. You are satisfied that there is a proper state of affairs and an efficient operating condition?

Mr. HATFIELD: What about refrigerator cars?

Mr. VAUGHAN: Yes, decidedly. Mr. Hatfield, that question was answered yesterday.

The CHAIRMAN: Is there anything more on transportation?

Mr. McLURE: With regard to supplies do you have to pay the usual 8 per cent?

Mr. VAUGHAN: Yes, we pay the full 8 per cent sales tax. We pay I would say about $7,000,000 in sales tax and we pay about $5,000,000 a year in duty.

Mr. HAZEN: I asked that question about fuel and I was going to get a breakdown.

Mr. VAUGHAN: Yes, that statement will be ready this afternoon.

The CHAIRMAN: Is there anything else on that matter? Let us go on to merchandise.

Mr. LOCKHART: Could we have a brief statement with regard to services. There have been a lot of changes in cafe services.

Mr. WALTON: That was mentioned yesterday in connection with what we call the rear and equipment, the sleepers and the lounge cars. We have one car of the Fort Lawrence type which consists of four bedrooms and a large lounge.

Mr. LOCKHART: I do not want to cause any repetition of what was said yesterday.

Mr. WALTON: I think it was very well covered in the record yesterday as to the reconditioning and the general modernization of equipment, and mention was also made, I think, of the thirty new first-class coaches, the last of which has been delivered.

Mr. LOCKHART: One of which I noticed in the area going through to Buffalo.

Mr. WALTON: We would naturally put one there.

Mr. LOCKHART: Oh, yes. Was a statement made as to the reconversion to the more modern type of cafe service? Last year there was mention made of the fact that you were going to try out new ideas in connection with cafe service. I have not run across any and I was wondering if that matter is still under consideration.

Mr. WALTON: We have turned out certain buffet and parlour cars which are exceptionally nice cars. We are reconditioning certain dining cars.

Mr. LOCKHART: The service is about on the same basis as always?

Mr. WALTON: So far.

Mr. LOCKHART: No changes?

Mr. WALTON: No.

Mr. NICHOLSON: In connection with loss and damage to freight, I notice there is quite an increase in the operating expenses. How does that compare with previous years? Is there any explanation why the losses and damages should be going up?

Mr. VAUGHAN: That is a matter that is giving us serious concern. A great many of the packages are not shipped in proper containers; one reason why that amount is up is because the value of the commodities has been greatly increased. Nevertheless, it is something that is giving us a good deal of concern. We consider our claims are too high and we are doing everything we can to reduce that item.

Mr. NICHOLSON: What sort of educational campaign are you carrying on?

Mr. WALTON: We are carrying that on with our employees. We have a special department looking into that matter.

The CHAIRMAN: If there is nothing more in general let us turn to page 18.

Mr. JACKMAN: May I ask whether many of your salaried and white-collared class of workers, such as clerks, are unionized?

Mr. VAUGHAN: Some of them belong to the Canadian Brotherhood of Railway Employees and some to some other unions in the states and elsewhere, but there are many who are not unionized.

Mr. JACKMAN: Would half of the white-collared class of employees be unionized?

Mr. VAUGHAN: I would say at least half.

Mr. JACKMAN: I just noticed in one of the graphs that your labour costs are 44 per cent over 1939. Could you answer a general question as to whether or not the white-collared class have had their salaries increased as much as the average employee?

Mr. VAUGHAN: They have been increased pretty much in the same ratio. When we give advances to our organized men we give similar advances to our unorganized men.

Mr. JACKMAN: More or less automatically?

Mr. VAUGHAN: That is correct.

Mr. NICHOLSON: With regard to the dining and buffet services, I presume that the revenues are down. Has the increase in the price of meals improved your financial position or worsened it?

Mr. WALTON: Are you speaking of the dining cars?

Mr. NICHOLSON: Yes.

Mr. WALTON: It has improved.

Mr. NICHOLSON: The meals have gone up in price a great deal; what is the percentage?

Mr. WALTON: The point where it affects patronage has to be watched pretty closely. We carry it as far as we can without seriously affecting the net result.

Mr. NICHOLSON: Have you an estimate of the increase in the cost of meals in the past twelve months?

Mr. WALTON: We could get that.

The CHAIRMAN: Let us turn to page 19.

Mr. JACKMAN: Mr. Chairman, I wish to speak about executive classes whom I might denominate as the men getting $5,000 or $6,000 or over. Is that a figure you might wish to put in, Mr. Vaughan? Have you increased their salaries comparatively? Suppose a man was getting $5,000, is he now getting $7,500 which would compensate him for the increased cost of living, to say nothing of the taxes he pays?

Mr. VAUGHAN: I think it was in the spring of 1946 that we gave an increase of 10 cents an hour to the men, which worked out at about $25 per month and we gave our officers and non union men an increase of $25 a month. It was not on a percentage basis.

Mr. JACKMAN: Twenty-five dollars a month is not very much in the executive class.

Mr. VAUGHAN: No, but that is what we gave them.

Mr. JACKMAN: With regard to the man getting $5,000 in 1939 is he getting over $7,000 now?

Mr. VAUGHAN: No, sir; his increase would be comparatively small. If he were getting $5,000 in 1939 for a similar position it would be between $5,500 and $6,000 now.

Mr. JACKMAN: How do you expect them to get along?

Mr. VAUGHAN: They have been paid what we considered was the additional cost of living and if we had given them an increase on a percentage basis they would have been getting more money, but we felt that we could not afford to do that.

Mr. JACKMAN: How can you keep your men or get the best service out of them if you are constantly reducing their standard of living?

Mr. VAUGHAN: We have been able to keep them. We have lost some men because they considered they were not receiving satisfactory salaries and could get more money elsewhere, but generally speaking on account of pension rights and other advantages our men stick with us.

Mr. JACKMAN: Is it your opinion that these men should get some compensation along the lines you have given to the system as a whole, namely, 44 per cent?

Mr. VAUGHAN: I would have to check up and see what we have given the so-called white-collar class. We have given them what we consider fair increases, having regard to the increased cost of living.

Mr. JACKMAN: You know that the cost-of-living index is up over 100 per cent, approximately 150 per cent, and many people complain that the index itself is not a true reflection of the actual costs; yet you have come out with the statement that what you have done for these men is greatly less. Is that a fair increase?

Mr. VAUGHAN: These men, according to our records, have had three increases which gives them a total increase of $638.52 per annum.

Mr. JACKMAN: On a salary of how much?

Mr. VAUGHAN: It does not make any difference what their salary was, they got the same amount.

Mr. JACKMAN: They are on a general level of income, now, with respect to the contribution made by the system?

Mr. VAUGHAN: It was considered the cost of living was practically the same for every man, regardless of his salary. Therefore, we gave them the same increases.

Mr. HLYNKA: Would you have figures to show how much the Canadian National Railways collected in the form of educational tax for the government in Saskatchewan over the years and whether the Canadian National Railways were paid for the services which they rendered in collecting those taxes for the government of Saskatchewan?

Mr. VAUGHAN: We could get that information.

Mr. NICHOLSON: I might answer that by saying, all those who collect money for the government of Saskatchewan are paid and they are all paid on the same basis.

Mr. VAUGHAN: I do not believe we have ever been paid for collecting money for governments.

Mr. NICHOLSON: I suggest you put in a bill, then, if you have not been paid.

Mr. VAUGHAN: Do you think it would be paid?

Mr. MOORE: Is that true of the province of Quebec, too?

The CHAIRMAN: Could we go to 19?

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1947

ROAD:		
New Lines Constructed	$ 1,183,283.41	
New Lines Acquired	77,012.49	
Abandoned Lines	*41,990.25*	
Rails and Fastenings	962,188.60	
Tie Plates and Rail Anchors	1,092,280.94	
Ballast	524,389.53	
Widening Cuts and Fills, etc.	265,409.16	
Large Freight Terminals	86,484.39	
Large Passenger Terminals	419,408.79	
Yard Tracks and Sidings	751,690.60	
Roadway Machines	376,822.09	
Bridges, Trestles and Culverts	547,161.20	
Stations and Station Facilities	781,220.33	
Water Supplies	153,791.00	
Shops, Enginehouses and Machinery	891,435.19	
Docks and Wharves	68,657.39	
Automatic Signals and Interlocking Plants	83,979.57	
Telegraphs—Railway	190,628.88	
Telegraphs—Commercial	1,117,746.06	
Stores Department Buildings and Equipment	105,263.74	
Land	*412,337.70*	
General	347,925.33	$ 9,572,450.74
EQUIPMENT:		
Equipment Purchased or Built	$11,806,427.49	
Equipment Retirements	*1,751,223.58*	
General Betterments to Equipment	1,369,671.74	
Equipment Conversions	*83,248.79*	
Express and Miscellaneous Equipment	411,238.81	11,752,865.67
HOTELS		201,804.74
SEPARATELY OPERATED PROPERTIES		1,536,459.88
NET ADDITIONS AND BETTERMENTS DURING 1947		$23,063,581.03
Ledger Balance 1st January, 1947	$2,052,640,443.12	

Net Additions and Betterments during the year		$23,063,581.03	
Abandonment of 12·21 miles, Trelle Jct. to Morinville, Alberta	*$ 106,034.46*		
Sale of Inner Dock Property, Victoria, B.C.	*246,582.22*		
Equipment Retirements—proportion of ledger value charged to Proprietor's Equity	*1,532,852.73*	*1,885,469.41*	
Canadian Government Railways:			
Construction of aqueduct at Fairview, N.S.	$ 63,045.78		
Transfer of property to Department of National Defence	*250.50*	62,795.28	21,240,906.90
Ledger Balance at 31st December, 1947			$2,073,881,350.02

DOMINION OF CANADA—LOANS

	Principal Outstanding at Dec. 31, 1947	Interest Accrued 1947	Average Interest Rate
Loans for repatriation of U.K. securities	$391,431,960.40	$13,699,344.41	3·50%
Loans for debt redemption	222,576,029.45	5,077,818.78	2·28%
Loans for new rolling stock	42,047,355.41	1,123,804.91	2·57%
Loans for investment in T.C.A.	16,643,022.71	71,614.02	1·00%
Canadian Government Railways—Working Capital at consolidation 1923	16,771,980.54	—	
Interest on loans repaid	—	29,852.73	
	$689,470,348.51	$20,002,434.85	2·90%

Mr. JACKMAN: If you are taking on new men in the executive field, how could you attract capable men who will effect economies in the operation and bring business to you, if you cannot offer them a better rate than you apparently do?

Mr. VAUGHAN: There are some of our men to whom we would like to pay higher rates. Generally speaking, we are not getting any complaints from our men. We have a system in effect now under which we are training young university men. We are taking so many men each year from the universities, men who are recommended by the Deans of the universities as being outstanding men. We are taking a definite number each year and we move them around from department to department. We hope, in that way, to develop a lot of good railway men. They will be paid adequate salaries as they progress.

Mr. JACKMAN: My suggestion is that, since you have not done more for your executives than you appear to have done since 1939, your salaries are not adequate?

Mr. VAUGHAN: We deal with special cases from time to time where we believe a revision is necessary.

Mr. NICHOLSON: How does the item for stations and station facilities of $781,000 for 1947 compare with the budget for this year?

The CHAIRMAN: What page is that?

Mr. NICHOLSON: Page 19.

Mr. COOPER: I will have to examine our budget details in order to answer that, Mr. Nicholson. When we come to the budget, we can answer that question.

Mr. NICHOLSON: Could you tell me how this compares with your budget for 1947?

Mr. COOPER: Again, I would have to go back to the details of the budget.

Mr. VAUGHAN: In general, we have been spending much less than our budget each year.

Mr. NICHOLSON: Because of the shortage of materials?

Mr. VAUGHAN: The shortage of materials and labour.

Mr. LOCKHART: Are we dealing with page 19?

The CHAIRMAN: Yes, page 19.

Mr. LOCKHART: What lines have been constructed, what new lines have been acquired and what lines have been abandoned?

Mr. VAUGHAN: You mean during the year?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: There is a reference in the report to one line abandoned in Alberta amounting to approximately twelve miles. This was the only abandonment. The only new line being constructed is the line to Barraute in Northern Quebec.

Mr. LOCKHART: There has been no change in that connection since last year?

Mr. VAUGHAN: No.

The CHAIRMAN: What about page 19, those two paragraphs? 19 carried.

Mr. McLURE: There is an item in connection with hotels of $201,804.

Mr. VAUGHAN: We would have to get the details of that for you, Colonel McLure. It is for general improvement work done on various hotels across the system, not on any one hotel.

The CHAIRMAN: Well, gentlemen, it is one o'clock. We will meet at four o'clock this afternoon.

The committee resumed at 4 p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, let us proceed. There is one question I would like to put to the committee. I must advise Mr. Howe when to bring the T.C.A. officials before the committee. Now, from the progress we have made I think we should be able to meet them by Thursday. Is there any objection to that? One of the officials has to come from Winnipeg and I do not want to have him here waiting around, but if we can get started on T.C.A. on Thursday we should finish by Friday and have the work all cleaned up. Is there any reason why we cannot take the T.C.A. on Thursday Mr. Jackman?

Mr. JACKMAN: I think we can make that an objective.

The CHAIRMAN: I will advise Mr. Howe to have the T.C.A. officials here on Thursday.

Now, Mr. Walton has some information to table for some of the members before we start.

Mr. WALTON: The first reply is in answer to a question asked by Mr. Emmerson in regard to the average yearly mileage per locomotive.

CANADIAN NATIONAL RAILWAYS

Average Yearly Mileage per Locomotive

Year	System	Atlantic Region
1947	37,655	32,009
1946	36,206	31,775
1945	36,938	32,067
1944	37,343	33,665
1943	38,098	36,310

The next question was in regard to the percentage of unserviceable locomotives generally and with particular reference to the Atlantic region.

CANADIAN NATIONAL RAILWAYS

Per Cent Unserviceable Locomotives

Period	System	Atlantic Region
December 31, 1947	19·6	26·7
December 31, 1946	20·3	28·8
December 31, 1945	19·6	25·8
December 31, 1944	18·6	30·2
December 31, 1943	16·6	22·3

The third one was with regard to manufactured miles and consumed miles, again generally and specifically for the Atlantic region.

CANADIAN NATIONAL RAILWAYS

	Manufactured Miles		Consumed Miles	
Year	Canadian Lines	Atlantic Region	Canadian Lines	Atlantic Region
1947	76,306,902	10,042,377	82,572,997	12,559,506
1946	79,213,129	11,998,009	80,239,232	12,833,020
1945	84,080,406	16,930,581	82,970,806	13,697,930
1944	89,936,000	15,280,000	84,163,024	13,748,779
1943	71,426,000	10,082,000	84,948,607	13,900,378

There was also a question asked with regard to the apprentice situation. I said this morning that our standard ratio was 1 to 5. That is the ratio we are working to. At the moment the situation in the system is that apprentices to mechanics are on a ratio of 1 to 8, and on the Atlantic region 1 to 9·7. The reason for that is that as the apprentice system got out of its normal course during the war years due to so many young men entering the services we are only now approaching a point where we can get back to the normal 1 to 5 ratio because of the first-year men coming in being restricted in regard to the number of machines available on which they can work and the number of men who can properly be instructed by the experienced mechanics in the various shops.

The CHAIRMAN: I believe Mr. Cooper has answers to some questions.

Mr. COOPER: There was a question asked by Mr. Jackman as to accidents on the Canadian National Railways and the Canadian Pacific Railway, and a question by Mr. Nicholson as to the amount included in the 1947 budget for stations and station facilities and the actual expenditures during that year.

Question by Mr. H. R. Jackman as to accidents.

Comparative statement of accidents.

DOMINION BUREAU OF STATISTICS

	Number of passengers killed per 100,000,000 passenger miles		Number of passengers injured per 100,000,000 passenger miles (see note)	
Year	C.N.R.	C.P.R.	C.N.R.	C.P.R.
1940	·189	·324	11·626	14·703
1941	·178	·457	8·304	22·544
1942	·155	1·860	4·886	23·987
1943	·118	·114	3·775	10·030
1944	·146	·069	3·652	9·270
1945	·130	·174	2·151	8·539
1946	nil	·094	2·996	11·665
1947	1·770	·180	11·445	8·043

NOTE: Definition of a passenger injured: An injury which would prevent a person from following his regular mode of life for one day.

Question by Mr. C. H. Nicholson.

Amount included in 1947 capital budget for stations and station facilities compared with actual expenditures during that year.

The amount included in the 1947 capital budget for stations and station facilities was $3,218,745. The actual expenditures during the year were $1,287,113.

The CHAIRMAN: Page 20, "Funded debt—principal and interest." Are there any questions on that page?

FUNDED DEBT — PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1947	Interest Accrued 1947
GUARANTEED BY DOMINION OF CANADA:					
5 % Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	$ 1,473,495.26	$ 73,925.15
5 % G. W. Perp. Debtr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	848,406.00	41,585.11
4 % Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	5,954,741.40	236,601.58
4 % Nor. Rly. Perpetual Debtr. Stock	G.T.R.	July 31, 1884	Perpetual	27,457.73	1,098.31
3 % 1st. Mortgage Bonds	G.T.R.	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.90
4 % Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3 % 1st. Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768.33	34,883.04
3½% 1st. Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,636,507.49	197,277.73
3½% 1st. Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	550,726.60	19,275.49
3½% 1st. Mortgage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,600,262.68	125,507.56
5 % 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5 % 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500.00	2,886,425.00
5 % 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	866,900.00
4¾% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000.00	2,303,560.00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3 % 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
3 % 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3 % 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
2¾% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 2, 1947	Jan. 2, 1967	50,000,000.00	1,348,630.14
Total				$536,807,069.49	$22,228,255.97
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4 % 1st. Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	$ 798,055.48	$ 31,899.02
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,154,052.13	51,919.20
Total				$ 1,952,107.61	$ 83,818.22
EQUIPMENT TRUST ISSUES:					
2¾% Series "P"	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	$ 3,100,000.00	$ 94,989.58
2½% Series "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	1,300,000.00	40,625.00
2½% Series "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	1,988,000.00	59,182.08
2 % Series "R"	Can. Nat.	Dec. 1, 1947	Ser. 1, 12, '57	5,600,000.00	4,116.89
Total				$ 11,988,000.00	$ 198,913.55

OTHER ISSUES:						
4 %	Canada Atlantic 1st. Mtge. Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	$ 9,947,934.00	$ 397,917.36
4 %	1st. Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4 %	2nd. Mortgage Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,574,530.00	142,981.20
4 %	2nd. Mortgage Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,144,906.00	125,796.24
4 %	1st. Mortgage Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,008.00	86,080.32
4 %	Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	3,992,929.66	159,386.72
4 %	Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,084.13	35,564.67
4 %	Perpetual Cons. Debenture Stock	C.N.Q.	Oct. 1906	Perpetual	465,545.33	18,610.68
4 %	1st. Mortgage Perpetual Debenture Stock	Q. & L. St. J.	June 1, 1912	Perpetual	287,289.07	11,491.56
4 %	1st. Mortgage Bonds	G.T.W.	Nov. 30, 1900	July 1, 1950	6,527,336.00	261,237.76
4½%	1st. Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4 %	1st. Mortgage Gold Bonds	M. & P. L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5 %	Indebtedness to Province of New Brunswick	Can. Nat.	Sept. 3, 1929	Feb. 15, 1958	380,022.60	19,001.12
	Interest on Securities retired in 1947				—	20,854.14
	Total				$ 32,112,584.79	$ 1,310,921.87
Total Debt held by Public as per Balance Sheet					$582,859,761.89	$23,821,909.61

There is included in the above $10,305,404.37 par value of System Securities held in Special Funds and Accounts.
These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.
This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

The CHAIRMAN: Page 21, "Investment in affiliated companies." Are there any questions on that page?

INVESTMENTS IN AFFILIA D COMPANIES

COMPANY	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Owned by Can. Nat. System Book Value
STOCKS:			
The Belt Railway Company of Chicago..............	$ 3,120,000.00	$ 240,000.00	$ 240,000.00
Canadian Government Merchant Marine, Limited....	800.00	800.00	800.00
Chicago & Western Indiana Railroad Company......	5,000,000.00	1,000,000.00	1,000,000.00
The Detroit & Toledo Shore Line Railroad Company	3,000,000.00	1,500,000.00	1,500,000.00
Detroit Terminal Railroad Company................	2,000,000.00	1,000,000.00	1,000,000.00
Northern Alberta Railways Company................ (representing amount paid up, i.e. 10%)	625,000.00	312,500.00	312,500.00
The Ontario Car Ferry Company (Limited)..........	500,000.00	250,000.00	179,007.53
The Public Markets, Limited......................	1,150,000.00	575,000.00	575,000.00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600.00
The Toronto Terminals Railway Company..........	500,000.00	250,000.00	250,000.00
The Toledo Terminal Railroad Company............	4,000,000.00	387,200.00	387,200.00
Trans-Canada Air Lines.......................... (representing amount paid up, i.e. 90.4%)	22,600,000.00	22,600,000.00	22,600,000.00
Vancouver Hotel Company Limited..................	150,000.00	75,000.00	75,000.00
			$28,120,107.53
BONDS:			
Northern Alberta Railways Co. 1st. Mortgage Bonds.	$31,530,000.00	$15,765,000.00	$15,765,000.00
The Toronto Terminals Railway Co. 1st. Mortgage Bonds..	25,910,000.00	12,955,000.00	12,955,000.00
			$28,720,000.00
ADVANCES:			
Chicago & Western Indiana Railroad Company..........			$ 2,651,123.59
Northern Alberta Railways Company..................			125,000.00
The Railroad Credit Corporation....................			5,555.86
Railway Express Agency, Incorporated................			164,684.42
Vancouver Hotel Company Limited....................			8,131.77
			$ 2,954,495.64
			$59,794,603.17

FINANCING

Year 1947

FUNDED DEBT—NEW ISSUES		
2¾% Canadian National Railway Company Guaranteed Bonds, due January 2, 1967	$50,000,000.00	
2% Equipment Trust Certificates, Series "R"—1947, maturing serially to December 1, 1957	5,600,000.00	$55,600,000.00
FUNDED DEBT—Retirements		
Equipment Trusts—annual principal payments	$ 3,149,000.00	
Various securities repatriated	14,235.66	3,163,235.66
Increase in Funded Debt		$52,436,764.34
DOMINION OF CANADA LOANS—New		
Loans for acquisition of Trans-Canada Air Lines Capital Stock	$16,643,022.71	
Loans to retire Atlantic and St. Lawrence Railroad Stock and various securities repatriated at market value	41,487.29	$16,684,510.00
DOMINION OF CANADA LOANS—Repaid		
Loans repaid out of proceeds of 2¾% Canadian National Guaranteed Bonds, due January 2, 1967, as above	$41,932,256.57	
Equipment Hire Purchase—annual principal payments	3,819,190 85	45,751,447.42
Decrease in Dominion of Canada Loans		$29,066,937.42
Increase in Capital Debt 1947		$23,369,826.92

The $50,000,000.00 2¾% Dominion Guaranteed Bonds, maturing January 2, 1967, were sold at a price of 99.68, representing an annual interest cost to the Company of 2.77%, and are callable on any interest payment date on or after January 2, 1964, at par, on sixty days' prior notice. The proceeds were utilized to repay Government loans to the extent of $41,932,256.57; to cover 1946 Capital Budget requirements to the amount of $6,710,766.14, and to recoup the Railway Company for subscriptions made to Trans-Canada Air Lines Capital Stock to the amount of $1,356,977.29.

The issue of $5,600,000.00 2% Equipment Trust Certificates, Series "R"-1947, dated December 1, 1947, was made to provide for part payment of new equipment costing $7,549,995.00. The Certificates, which mature serially in 10 annual instalments, were sold at a price of 99.5625, representing an annual interest cost to the Company of 2.085%.

The Company has called for redemption at par on February 1, 1948, $20,000,000.00 Canadian National Railway Company 3% Dominion Guaranteed Bonds due February 1, 1952, and on February 15, 1948, at par, $25,000,000.00 Canadian National Railway Company 3% Dominion Guaranteed Bonds due February 15, 1953.

Mr. JACKMAN: I am interested in the footnotes about the financing. I wonder if Mr. Cooper could give us the date of call of the two issues in the last paragraph or footnote—$20,000,000 and $25,000,000.

Mr. COOPER: The date on which they were called, or the payable date?

Mr. JACKMAN: The date on which they will call for payment at a future date.

Mr. COOPER: The $25,000,000 issue, which was callable for payment on February 15, 1948, required sixty days' notice and the $20,000,000 issue called for payment on February 1, 1948, also required sixty days' notice.

Mr. JACKMAN: At what time did you issue the $50,000,000 2-3/4 per cent bonds mentioned in the first paragraph of the footnote?

Mr. COOPER: They were dated January 2, 1947.

Mr. JACKMAN: 1947; over a year ago this financing was done?

Mr. COOPER: Yes.

Mr. JACKMAN: Did you do any financing this year—in 1948?

Mr. COOPER: Yes.

Mr. VAUGHAN: We had some equipment issues.

Mr. COOPER: On March 15, 1948, we made an issue of $28,000,000 2-1/8 per cent equipment trust notes, series "S".

Mr. JACKMAN: What was your net cost on this?

Mr. COOPER: The net cost to the company was 2·30 per cent.

Mr. JACKMAN: Would you have liked to have issued this sometime prior to March 15, 1948? Why did you not issue them prior to March 15, 1948?

Mr. VAUGHAN: The negotiations were completed by that date and the rate was arranged for that date.

Mr. JACKMAN: It was arranged prior to that date. You were not delayed in issuing these bonds by any instructions or advice you had from government officers, were you?

Mr. VAUGHAN: No, sir. We naturally confer with the Bank of Canada and with the Finance Department at Ottawa with respect to these issues and we try to put them out at a time which is prudent, which will give us the money at the lowest cost.

Mr. JACKMAN: As much as you do not ordinarily confer with the government on matters in connection with the operation of the railway why do you have to consult the government or the Bank of Canada in regard to this financing? Private companies do not do that.

Mr. VAUGHAN: As I said, we wanted to get the money at the lowest possible rate and if we can borrow money from the government cheaper than outside we want to do it.

Mr. JACKMAN: Except that sometimes the government has other irons in the fire—matters of financial policy which may be working against the interests of the railway. Did you borrow this $28,000,000 from the government?

Mr. VAUGHAN: This was borrowed from the public. We called, I think, $50,000,000 last year, and we borrowed the money from the government.

Mr. JACKMAN: If some private company were to do some refunding or financing of some equipment notes they would not discuss the matter with and take the advice of the government. Why did you go to them on a matter like this when we always have understood that the government does not interfere with your policy?

Mr. VAUGHAN: The advice of the Bank of Canada ought to be worth something to us. We study the trends and confer with them on the trends in order to be sure we are doing the right thing and going on the market at prudent times.

Mr. JACKMAN: Do you not think you might have got a better rate had you gone to the market a few months earlier?

Mr. VAUGHAN: No, sir, I do not think so. Anyway we could not have done that because the equipment was not delivered.

Mr. JACKMAN: You might have been able to fulfil all of the requirements of the equipment issue.

Mr. VAUGHAN: I think too I should state that we were almost compelled to discuss these matters with the government because in some instances they carry government guarantees.

Mr. JACKMAN: On that equipment you would not have had any worse rate than 2-1/8 per cent if you had not had a government guarantee.

Mr. VAUGHAN: Equipments are considered good security. They do not have government guarantee as it happens.

Mr. JACKMAN: No. What was your particular reason for having to consult with the government?

Mr. VAUGHAN: That reason falls short in that particular case, but I am referring to other cases, the general situations. It may be that the government had money available and they would prefer to let us have the money at a lower rate than we could borrow from outside.

Mr. JACKMAN: I understand that some months prior to this date of issue the market would have given you a more favourable rate. It has been suggested in some quarters that if you had been entirely free you might have been able to get a better rate from the public market.

Mr. VAUGHAN: This rate we have got is a better rate than has been obtained by most United States companies on issues made at the same time.

Mr. JACKMAN: It is a better rate than the American rate?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: All right.

The CHAIRMAN: Let us go on to page 22—"Major contingent liabilities" and "Companies comprising the Canadian National Railways System." Are there any questions on that page?

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

At 31st December, 1947, Canadian National Railway Company had subscribed for $25,000,000 of the Capital Stock of the Air Lines of which $23,000,000 has been called and $22,600,000 has been paid in.

NORTHERN ALBERTA RAILWAYS COMPANY:

At 31st December, 1947, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company of which $312,500 has been called and paid in.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68%.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1947, are:—

Issued for "common" property	$ 39,973,019 39
Issued for "exclusive" property	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1947, is $16,393,000.

C.N.R. Pension Plan:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000.00
2	The Canadian National Railways Securities Trust	378,518,135.02
		$396,518,135.02

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340.00	$ 47,440.00
4	The Bay of Quinte Railway Company	21	1,395,000 00	
5	The Bessemer and Barry's Bay Railway Company	21	125,000.00	
6	The Canadian Express Company	1	1,768,800.00	
7	Canadian National Electric Railways	21	1,750,000.00	
8	Canadian National Express Company	22	1,000,000.00	
9	Canadian National Land Settlement Association	1	—	
10	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573.92	
11	*Canadian National Realties, Limited	21	40,000.00	
12	Canadian National Rolling Stock Limited	1	50,000.00	
13	*Canadian National Steamship Company, Limited	43	15,000.00	
14	Canadian National Telegraph Company	21	500,000.00	
15	*Canadian National Transportation, Limited	1	500.00	
16	The Canadian Northern Alberta Railway Company	21	3,000,000.00	
17	Canadian Northern Manitoba Railway Company	21	250,000.00	
18	The Canadian Northern Ontario Railway Company	21	10,000,000.00	
19	Canadian Northern Pacific Railway Company	21	25,000,000.00	
20	The Canadian Northern Quebec Railway Company	21	9,550,000.00	3,849,200.00
21	The Canadian Northern Railway Company	1	18,000,000.00	
22	The Canadian Northern Railway Express Company, Limited	21	1,000,000.00	
23	Canadian Northern Steamships, Limited	21	2,000,000.00	
24	Canadian Northern System Terminals (Limited)	21	2,000,000.00	
25	Canadian Northern Western Railway Company	21	2,000,000.00	
26	Cannar Oils Limited	1	100.00	
27	*The Centmont Corporation	29	176,400.00	
28	The Central Ontario Railway	21	3,331,000.00	
29	Central Vermont Railway, Inc	1	10,000,000.00	
30	Central Vermont Terminal, Inc	29	5,000.00	
31	*Central Vermont Transit Corporation	27	5,000.00	
32	Central Vermont Transportation Company	27, 29	200,000.00	
33	*Central Vermont Warehouse, Inc	27	5,000.00	
34	The Champlain and St. Lawrence Railroad Company	1	50,000.00	
35	*Consolidated Land Corporation	46	64,000.00	
36	*The Dalhousie Navigation Company, Limited	21	50,000.00	
37	Duluth, Rainy Lake & Winnipeg Railway Company	39	2,000,000.00	
38	Duluty, Winnipeg and Pacific Railroad Company	39	100,000.00	
39	Duluth, Winnipeg and Pacific Railway Company	21	3,100,000.00	
40	*Grand Trunk-Milwaukee Car Ferry Company	46	200,000.00	
41	The Grand Trunk Pacific Branch Lines Company	43	200,000.00	
42	The Grand Trunk Pacific Development Company, Limited	43	3,000,000.00	
43	The Grand Trunk Pacific Railway Company	1	24,940,200.00	
44	The Grand Trunk Pacific Saskatchewan Railway Company	43	20,000.00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—Cont.

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—Cont.

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
45	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	43	501,000.00	
46	Grand Trunk Western Railroad Company (Common)	1	20,000,000.00	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000.00	
47	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	14	373,625.00	6,825.00
48	The Halifax and South Western Railway Company	21	1,000,000.00	
49	*Industrial Land Company	46	1,000.00	
50	International Bridge Company	1	1,500,000.00	
51	The James Bay and Eastern Railway Company	21	125,000.00	
52	The Lake Superior Terminals Company Limited	21	500,000.00	
53	The Maganetawan River Railway Company	1	30,000.00	
54	Manitoba Northern Railway Company	1	500,000.00	
55	The Marmora Railway and Mining Company	21	128,600.00	
56	The Minnesota and Manitoba Railroad Company	21	400,000.00	
57	The Minnesota and Ontario Bridge Company	21	100,000.00	
58	Montreal and Province Line Railway Company	27	1,000,000.00	
59	*Montreal and Southern Counties Railway Company	1	500,000.00	165,600.00
60	The Montreal and Vermont Junction Railway Company	29	197,300.00	
61	*Montreal Fruit & Produce Terminal Company, Limited	1	500.00	
62	*The Montreal Stock Yards Company	1	350,000.00	
63	*The Montreal Warehousing Company	1	236,000.00	12,240.00
64	Mount Royal Tunnel and Terminal Company, Limited	21	5,000,000.00	
65	Muskegon Railway and Navigation Company	46	161,293.00	
66	*National Terminals of Canada, Limited	1	2,500.00	
67	National Transcontinental Railway Branch Lines Company	1	500.00	
68	*The Niagara, St. Catharines and Toronto Railway Company	21	925,000.00	
69	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	68	100,000.00	
70	*The Oshawa Railway Company	1	40,000.00	
71	The Ottawa Terminals Railway Company	1	250,000.00	
72	The Pembroke Southern Railway Company	1	107,800.00	
73	Prince George, Limited	1	10,000.00	
74	*Prince Rupert, Limited	1	10,000.00	
75	The Quebec and Lake St. John Railway Company	21	4,508,300.00	489,160.00
76	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	21	201,000.00	
77	*Rail & River Coal Company	1	2,000,000.00	
78	St. Boniface Western Land Company	21	250,000.00	
79	The St. Charles and Huron River Railway Company	21	1,000.00	
80	St. Clair Tunnel Company	1	700,000.00	
81	*The Thousand Islands Railway Company	1	60,000.00	
82	†Trans-Canada Air Lines	1	22,600,000.00	
83	The United States and Canada Rail Road Company	1	219,400.00	475.00
84	Vermont and Province Line Railroad Company	1	200,000.00	
85	The Winnipeg Land Company Limited	21	100,000.00	
			$224,976,731.92	$ 4,570,940.00

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

† Treated as an Affiliated Company.

Mr. MOORE: I would like to ask one question. The member for Skeena asked me to find out if it would not be possible for the Canadian National Railways to make use of their dry-dock at Prince Rupert for the repairing of Canadian National ships. I understand it has not been used for the last year or so.

Mr. VAUGHAN: The overhauling of our boats has been given to Vancouver and Victoria firms in the last two years because as a matter of fact we have only had one vessel and we could not afford to have her out of commission for very long and we found we could get the work done much quicker at one of the Vancouver or Victoria concerns than by sending the boat to Prince Rupert. What we will do in the future I cannot say; it depends upon conditions. We are still operating the shipyard and dry-dock at Prince Rupert. We are doing considerable repair work for outsiders—small work for fishing boats.

Mr. JACKMAN: I notice there are still seven companies that the system owns almost completely, but there is still a small share-holding interest by the public. Does any one of these seven companies pay dividends? They are all set out on pages 22 and 23.

Mr. VAUGHAN: We have been working on a number of these, but I am sorry to say we have not made very much progress. There are a lot of legal questions involved in connection with them and while we consider some of the stocks have no value at all the holders of them and ourselves cannot agree.

Mr. JACKMAN: Do you pay dividends on any of them?

Mr. VAUGHAN: No.

Mr. JACKMAN: Not even on the Canadian Northern Quebec Railway, of which there is $3,849,000 par value owned by the public?

Mr. VAUGHAN: No. We do not pay any outside dividends. We own by far the larger amount of the stock in all those cases and we are making an effort to get in the stock of those companies where there is a minority interest.

Mr. JACKMAN: Take that particular case I mention. For what reason are the minority stockholders who have about one-third of that stock holding onto it? Why do you not buy it in at what it is worth and if it is not worth anything why do you not negotiate with them?

Mr. VAUGHAN: Are you talking of the Canadian Northern Quebec Railway?

Mr. JACKMAN: It is the largest item of that group.

Mr. VAUGHAN: We do not think the stock is worth anything. Some of it is held, I think, by the provincial government and they would like us to pay them something for the stock and we do not think it is worth anything and we are still carrying on our negotiations with them.

Mr. JACKMAN: In that particular case do they attempt to interfere with the management or do they insist on representation?

Mr. VAUGHAN: We never hear from them at all.

Mr. JACKMAN: But you are still actively endeavouring to get rid of those accounts?

Mr. VAUGHAN: Yes, we are.

Mr. JACKMAN: All right.

The CHAIRMAN: Is there anything on page 23? What about page 24? "Railway equipment." Somebody may have some questions to ask on that.

RAILWAY EQUIPMENT

	Dec. 31, 1946	Additions during year	Retire-ments during year	Conversions during year		Dec. 31, 1947
				Added	Retired	
Locomotives:						
Passenger—Freight	1,967		24		8	1,935
Switching	522	6		8		536
Electric	24					24
Diesel Electric	50	25				75
Total	2,563	31	24	8	8	2,570
Freight Equipment:						
Box Cars	70,692	954	630		310	70,706
Flat Cars	51,312		30		88	5,194
Stock Cars	3,029		22			3,007
Coal Cars	15,562	250	97		24	15,691
Tank Cars	141				1	140
Refrigerator Cars	3,198	299	22			3,475
Caboose Cars	1,613		23	24		1,614
Other Cars in Freight Service	10		5	3		8
Total	99,557	1,503	829	27	423	99,835
Passenger Equipment:						
Coach Cars	1,145	2	38		24	1,085
Combination Cars	266		5	13		274
Dining Cars	96		10		1	85
Colonist Cars	189		1		19	169
Parlor Cars	50			11		61
Cafe Cars	28				1	27
Sleeping Cars	298		1			297
Tourist Cars	47					47
Baggage and Express Cars	1,050		14			1,036
Postal Cars	49					49
Unit Cars	37		2			35
Other Cars in Passenger Service	58				5	53
Total	3,313	2	71	24	50	3,218
Work Equipment:						
Cars in Work Service	7,462	19	317	423	1	7,586
Floating Equipment:						
Car Ferries	8					8
Barges	5					5
Tugs	4					4
Work	3					3

Mr. Nicholson: I notice that there have been 25 diesel electric locomotives added during the year. How many are on order now? Where are these 25, are they eastern or western?

Mr. Walton: They are in various locations. The last lot that we got of 20 were distributed, roughly, 12 to the central region and 4 to the Atlantic region, and 4 to the western region. There are 20 diesel switchers and 2 road diesels on order for Canada and eleven for U.S. lines.

Mr. Jackman: How many of these locomotives on order are steam locomotives?

Mr. Vaughan: We have no steam locomotives on order.

Mr. Jackman: Are steam locomotives then passing out of the picture entirely?

Mr. Vaughan: Except on certain coal roads. I think last year 1,000 locomotives were ordered by the railways in the United States and of them not more than 50 were steam locomotives.

Mr. Jackman: And that situation would be the same in Canada?

Mr. VAUGHAN: I would not say that. We have not got the same concentrated runs as they have over there; but the diesel switchers we have put into service show a decided economy.

Mr. JACKMAN: I noticed in a clipping that out of 1,226 locomotives only 30 were steam.

Mr. VAUGHAN: I think a few have been ordered by the different coal roads.

Mr. JACKMAN: How many places manufacture diesel locomotives in Canada?

Mr. VAUGHAN: The Montreal Locomotive Works are now making diesel switchers; and the Canadian Locomotive Company at Kingston, Ontario, are making small diesels. But the larger diesel road engines are not made in Canada.

Mr. JACKMAN: Is there anything so very complicated about making a diesel or does it require mass production.

Mr. VAUGHAN: There is not sufficient demand for these large diesel road engines in Canada to enable them to be constructed economically. That is the answer.

Mr. WALTON:Might I correct my answer of a moment ago. In referring to locomotives on order I overlooked, apparently, 18 on order for Prince Edward Island, which are starting to come forward now. Mr. McLure would not like me to leave those out.

Mr. JACKMAN: In the past did we usually get our locomotives made in Canada, the steam locomotives.

Mr. VAUGHAN: Steam locomotives have been made in Canada for many many years back by the two companies. We always bought our steam locomotives from Canadian companies.

Mr. JACKMAN: It would look then as if Canada would not get the business, if they are not making diesel locomotives at a reasonable cost.

Mr. VAUGHAN: Some of the companies in the United States now, the large locomotive builders, are looking into the situation with respect to Canada with a view to determining whether or not they could make diesel locomotives in Canada. That study is under way now. It may be that some of the companies which are making switching locomotives may go into the business of making road locomotives.

Mr. JACKMAN: Is one of the locomotive works owned by the system?

Mr. VAUGHAN: Oh, no. The Montreal Locomotive Works is owned by an American company, and the Canadian Locomotive Company at Kingston is an independent company.

Mr. WALTON: The Prince Edward Island locomotives are being made at Kingston.

Mr. NICHOLSON: How many small units have you that operate on the branch lines, and where do they appear, on what page?

Mr. VAUGHAN: They are not separated as to tractive efforts.

Mr. WALTON: They are shown in this statement on page 24.

Mr. NICHOLSON: On page 24?

Mr. WALTON: Yes, about 7 or 8 lines from the bottom, under the line entitled "unit cars . . . 37." That is at December 31, 1946; and 35 at the end of 1947.

Mr. NICHOLSON: I was referring to these unit cars. Have they not been satisfactory?

Mr. WALTON: One difficulty is to find a run that they can handle. Frequently they can handle passengers, but the express or mail gets beyond their capacity.

The difficulty is to find a run where the traffic, from all sources, is not so heavy that it renders it necessary to substitute a steam train so often that the economy is lost.

Mr. NICHOLSON: So they have not answered your problem as to bus competition on branch lines?

Mr. WALTON: In some places, yes.

Mr. EMMERSON: Is anything being done about the gas-turbine-electrics?

Mr. VAUGHAN: Not by us; but our department of research and development in co-operation with our mechanical department is following very closely the experiments being made in the United States on these turbo-electrics, gas turbines. One or two, yes, several of the railroads there have combined jointly and are paying the cost of developing these gas turbines. Another one has ordered one on its own account, I think, the Santa Fe; and our people are following them very closely. Some of our people think there is an opportunity for a decided economy in the use of gas turbines; but that remains to be seen.

Mr. EMMERSON: And you could use a different kind of fuel?

Mr. VAUGHAN: Yes, we could use different kinds of fuel.

The CHAIRMAN: Is there anything else?

Mr. EMMERSON: I was going to ask Mr. Walton with respect to passenger and freight locomotives retirements during the year, 24 engines, whether he could give us an idea of what type of engine was retired; is that the small engine or the large engine?

Mr. WALTON: The greater number are the small obsolete types usually built in 1900 to 1905, but there might be the odd larger engine which was so badly damaged that it had to be retired. But most of them are small old locomotives.

The CHAIRMAN: Is there anything more there, gentlemen, or shall we turn to the next page?

Mr. JACKMAN: What is being done to combat the smoke nuisance which has arisen in Toronto and in some other communities?

Mr. VAUGHAN: We are co-operating with the municipalities in that connection. We have a combustion engineer who is keeping closely in touch with the situation and we are trying to improve the situation wherever we can. The diesel locomotives are improving it to some extent, but wherever you have big yards using steam locomotives, it is very difficult to get away from the smoke.

Mr. JACKMAN: Is it because of the cost that you cannot adopt diesel locomotives to bring the trains into the cities and do all the switchings?

Mr. VAUGHAN: That is one reason, and we have a great many steam switchers which have a large life yet and we would not care to discard them. But I think in the process of time diesel will be used for switching purposes entirely.

Mr. JACKMAN: What authority have municipalities got to insist upon your doing away with the old steam types?

Mr. VAUGHAN: Some of them have put ordinances into effect.

Mr. WALTON: The whole thing has to be handled by the Board of Transport Commissioners.

Mr. JACKMAN: We have an awful smoke nuisance in Toronto and a lot of it comes from the railroads.

Mr. VAUGHAN: The city and ourselves have been co-operating with the board as to the type of order that should be issued in connection with the smoke issue.

Mr. Bonnier: You have never made a decision to have a station in St. Henri?

Mr. Vaughan: We have some diesels operating around there.

Mr. Bonnier: There are about 150,000 people there without any station at all and the trains go right through without stopping.

Mr. Vaughan: I know what you are referring to and that has been up on many occasions. Do you know the present position there, Mr. Walton?

Mr. Walton: You probably mean in the vicinity of where the electric engines come off and where the steam engines go on.

Mr. Bonnier: Where you change engines; you could have a station right beside the church there; because there is a vacant lot which used to be a yard for freight and now you do not use it for that purpose, so you already have the ground there in the right place to have the station.

Mr. Vaughan: There was quite a difference of opinion as to where that station should be located, if one were to be constructed, and the people, I think in Verdun and in St. Henri had some different views as to where the station should go.

Mr. Bonnier: Well, you cannot get into Verdun because you have no line there, so you must take St. Henri; and you can stop before you cross Notre Dame street, where you do stop, and you could take that old station from St. Henri and bring it over there.

Mr. Vaughan: Well, some day we may do something, but that is not a promise. We are looking into it very carefully and it has been up two or three times lately.

Mr. Bonnier: Because your trains pass 150,000 people, and they are without any station, they have got to go all the way to the other end of the city to the main station. The result is that those people travel via the Canadian Pacific and they do go via the Canadian Pacific railway all the time, and because of that they go to Westmount and take the train there. Lots of people do the same thing because your trains pass right through without stopping and therefore cannot take on any passengers.

Mr. Vaughan: It has been said that Verdun is the only city in the North American continent with 75,000 people without a railway station or a pub.

Mr. Bonnier: But at St. Henri you have 85,000 people who have no station at all.

Mr. Vaughan: It is not so long ago since we appointed some of our officers to make a study of that situation but I have not seen their report yet. No doubt it will be out at an early date.

Mr. Mutch: Take the separate operating costs of the unit type of cars. Is there any record kept of the operating costs?

Mr. Vaughan: Oh yes, I think so.

Mr. Walton: Yes, and they are reasonably low, as a matter of fact. Although I have not got the figures with me.

Mr. Mutch: Is there any possibility there, on account of the fact that their operating cost is low, of any increase in their post office or mail carrier use?

Mr. Walton: In answer to a question put by Mr. Nicholson some time ago, when he asked me about the unit cars, I said that they performed satisfactorily but that our difficulty in many cases was to find a run where conditions permitted their use. You see, there is a limit to what they can haul. On many runs, with mail express and passengers, when those are considered, there is too much for one of those cars, and if we have to substitute a steam service for them very often

and leave them idle, then your economy disappears very quickly, and that is our main difficulty. But on runs on which they can handle the volume, they do a very good job.

Mr. MUTCH: Your fast freight on short lines is too heavy for them?

Mr. WALTON: Oh yes. We have a few of them which handle two cars behind the unit car. Others handle one car satisfactorily, but when you get beyond that on a grade, then they cannot make the time.

Mr. MUTCH: Their main value I take it would be on suburban lines.

Mr. WALTON: On what we would call light branch lines they do very well.

Mr. JACKMAN: When you say that you are co-operating with the city of Toronto authorities on the smoke problem just what are you doing in the year 1948 to help to eliminate some of that smoke?

Mr. VAUGHAN: How many more diesels have we put in?

Mr. WALTON: We added 4 diesels at Toronto, and in addition to that, we are trying out a jet arrangement in the fire box which is some help in dissipating the smoke, and we will add more of them, if they come up to expectation. And we have also put on a man at two or three of the larger points to instruct especially the men who work in the yards and handle the engines in the cities as to the very best method of firing in order to reduce the smoke niusance.

Mr. MOORE: Do you ever have trouble with diesels smoking?

Mr. VAUGHAN: The trouble with the diesels is that they are noisy. If we do not get the smoke we get the noise.

The CHAIRMAN: What about page 27, "statistics of rail-line operations"?

Mr. HAZEN: May I ask a question which I probably should have asked this morning. I do not know if Mr. Vaughan could answer the question now, but perhaps, if not, an answer could be furnished afterwards. This is the question: Has there been an additional operating cost or has there been an operating saving over your line to Portland since the reduction in freight rates to that United States port became effective?

Mr. VAUGHAN: We can get that for you.

Mr. HAZEN: What does this additional operating cost or saving, if there was one, amount to in dollars and cents?

Mr. VAUGHAN: The amount either way was so very small it was not a factor at all in going after this business which was going to New York.

Mr. HAZEN: But you will get us the figures?

Mr. VAUGHAN: Yes, we can get you the gross revenue and expenses for specific purposes in both cases. We will be glad to give you that.

The CHAIRMAN: Is there anything on page 27, "statistics of rail-line operations"?

STATISTICS OF RAIL-LINE OPERATIONS

	1947	1946
TRAIN-MILES:		
Freight Service	44,027,737	41,817,432
Passenger Service	23,346,277	23,581,125
Total	67,374,014	65,398,557
Work Service	1,804,867	1,583,828
Total	69,178,881	66,982,385
LOCOMOTIVE-MILES:		
Freight Service	46,793,909	44,374,635
Passenger Service	23,318,818	23,380,822
Train Switching—Freight	4,092,796	3,797,979
—Passenger	138,844	118,597
Yard Switching—Freight	16,662,192	15,339,794
—Passenger	1,625,954	1,647,359
Total	92,632,513	88,659,186
Work Service	2,458,541	2,154,186
Total	95,091,054	90,813,372
CAR-MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,214,440,166	1,140,162,216
Empty Freight Cars	510,831,225	477,233,755
Passenger Coach and Combination Cars	6,097,450	6,605,024
Sleeping, Parlor and Observation Cars	317,779	308,517
Dining Cars	17,308	20,328
Other Cars	6,583,280	6,851,524
Caboose	43,365,340	41,314,017
Total	1,781,652,548	1,672,495,381
CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	326,345	213,046
Empty Freight Cars	55,634	29,557
Passenger Coach and Combination Cars	62,266,663	67,830,334
Sleeping, Parlor and Observation Cars	50,052,285	54,245,384
Dining Cars	8,401,777	9,189,041
Other Cars	72,011,184	70,863,420
Motor Unit Cars	791,663	890,569
Caboose	612,939	1,147,231
Total	194,518,490	204,408,582
Car-Miles—Total	1,976,171,038	1,876,903,963
Work Service	4,366,715	4,598,630
Total	1,980,537,753	1,881,502,593
AVERAGE MILEAGE OF ROAD OPERATED	23,402·08	23,437·12
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	86,221,279	78,950,008
Tons carried one mile—Revenue freight	32,945,415,090	30,811,920,078
Freight revenue	$342,582,003	$300,313,199
Revenue per ton	$3·97329	$3·80384
Revenue per ton mile	$0·01040	$0·00975
Miles per revenue ton	382·10	390·27
Ton-miles—Revenue freight per mile of road	1,407,799	1,314,663
Ton-miles—All freight per mile of road	1,533,213	1,425,942
Gross ton-miles of cars, contents and cabooses	76,607,077,276	71,654,047,848
Net ton-miles of freight (Revenue and non-revenue)	35,880,383,954	33,419,975,710
Train-hours in freight road service	2,918,906	2,723,640
PASSENGER TRAFFIC:		
Passengers carried	21,226,889	22,320,490
Passengers carried one mile	1,844,649,873	2,289,022,387
Passenger revenue	$43,017,690	$50,128,223
Revenue per passenger	$2·02657	$2·24584
Miles per revenue passenger	86·90	102·55
Revenue per passenger mile	$0·02332	$0·02190
Passenger-miles per mile of road	78,824	97,667
NET RAILWAY OPERATING INCOME:		
Gross Revenue per mile of road	$18,724·74	$17,091.95
Gross Railway operating charges per mile of road	$17,711·56	$15·745·41
Net Railway operating income per mile of road	$1,013·18	$1,346·54

The CHAIRMAN: Is there anything on page 28, "operated mileage, 31st December, 1947."

Mr. NICHOLSON: Before you leave page 27, I wonder if we could have the information on the revenue per ton mile on eastern and western lines and also for 1939 as compared to 1947? Could we have that information brought down, I wonder, under freight traffic?

Mr. COOPER: We can get it for you; but it will take us a day or two.

Mr. NICHOLSON: The revenue per ton, and per ton mile, 1939 as compared to 1947 and also a breakdown for the western region versus the eastern and the central.

Mr. VAUGHAN: We will file it with you.

The CHAIRMAN: Operated mileage?

Mr. JACKMAN: On this subject of revenue per ton mile, it is .01 cent.

Mr. COOPER: One cent.

Mr. VAUGHAN: One cent per ton mile.

Mr. JACKMAN: That is your revenue per ton mile. Now, in the Canadian Pacific report, if I recall it correctly, it gave out the figure—I cannot put my hand on it at the moment.

Mr. COOPER: On the Canadian Pacific it was .95 of 1 cent.

Mr. NICHOLSON: The same as yours for 1946?

Mr. COOPER: In 1946 theirs was .93 cent, and .95 cent in 1947, while ours was 9.75 mills in 1946, and 1 cent in 1947.

Mr. JACKMAN: You are a wee bit better than the Canadian Pacific.

Mr. COOPER: That is due to the class of traffic carried; they carried more agricultural and less manufactured products than we did.

Mr. JACKMAN: And on the passenger miles, they are 2·4 cents while you are 2·3 cents.

The CHAIRMAN: Is there anything more on page 27? Now, page 28, operated mileage.

OPERATED MILEAGE, 31st DECEMBER, 1947

Operated Road Mileage Territory	Owned	Leased	Trackage	Total
Atlantic Region	2,985·78	6·41	82·95	3,075·14
Central Region	7,093·85	348·05	27·86	7,469·76
Western Region	11,415·08	34·84	84·35	11,534·27
Grand Trunk Western Lines	903·19	9·50	59·75	972·44
Central Vermont Lines	237·92	125·18	58·73	421·83
Total First Main Track	22,635·82	523·98	313·64	23,473·44
Lines in Canada	21,279·28	216·97	190·77	21,687·02
Lines in United States	1,356·54	307·01	122·87	1,786·42
Operated Mileage all Tracks				
First Main Track	22,635·82	523·98	313·64	23,473·44
Second Main Track	1,221·34	9·34	85·42	1,316·10
Third Main Track	26·65	....	3·49	30·14
Fourth and Other Main Tracks	10·78	....	5·09	15·87
Spurs, Sidings and Yard Tracks	5,938·60	172·71	1,206·62	7,317·93
Total All Tracks	29,833·19	706·03	1,614·26	32,153·48

Mr. MOORE: The member for Skeena again asked me to ask a question. He tells me that the United States has passed what is known as the Jones Shipping Act, and freight arising in the United States can be shipped to Prince Rupert at the same price that it goes to Seattle, but because of this Act freight

originating in the United States must go to an American port. Now, could any arrangement be reached whereby the Canadian railroads could get some of this business coming to Prince Rupert?

Mr. VAUGHAN: That Jones Act has been in effect for a great many years and the matter is up now in Washington. The Governor of Alaska has taken it up and has made representations to Washington, that the Jones Act should be suspended so far as the movement of United States traffic through Prince Rupert to Alaska is concerned, and the matter is actually up at the present time. We had one of our men, Mr. Fairweather, down there last week in Washington giving some evidence on it.

Mr. NICHOLSON: According to the information I was given this morning, the Canadian National operates 21,735 today compared to 17,034·1 Canadian Pacific, and I inquired yesterday about the revenue from mail and I find that the Canadian National with 56·1 per cent of the miles, gets 47·8 per cent of the Dominion Government postal revenue while the Canadian Pacific with 43·9 per cent of the miles gets 52 per cent of the revenue. Can the president tell us anything about that?

Mr. VAUGHAN: I said something about it yesterday, that we are constantly making representations to the post office department to get a larger share of the mails.

Mr. NICHOLSON: It seems to me that this matter has been up year after year.

Mr. VAUGHAN: Yes, but we are making some progress.

Mr. NICHOLSON: Can we have additional information over the last ten years as to whether you are getting a larger or a worse percentage?

Mr. VAUGHAN: We could give you our mail earnings for the last ten years.

Mr. MUTCH: They are up about $400,000.

Mr. NICHOLSON: But the Canadian Pacific is up as well.

The CHAIRMAN: Is there anything more there, or shall we go on and take page 31? Is there anything on page 31?

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1947—%	1946—%	1947—%	1946—%
Labour	54·55	55·10	60·20	61·79
Fuel	11·21	9·65	12·36	10·82
Other Expenses	24·87	24·43	27·44	27·39
Total Operating Expenses	90·63	89·18	100·00	100·00
Available for Taxes and Other Accounts	9·37	10·82		
Total	100·00	100·00	100·00	100·00
Maintenance of Way Accounts	17·17	16·76	18·95	18·80
Maintenance of Equipment Accounts	18·20	18·41	20·09	20·64
Traffic Accounts	1·76	1·77	1·94	1·99
Transportation Accounts	48·02	46·27	52·99	51·88
Miscellaneous Accounts	·98	1·18	1·07	1·32
General Accounts	4·50	4·79	4·96	5·37
Total Operating Expenses	90·63	89·18	100·00	100·00

EMPLOYEES AND THEIR COMPENSATION

	*Average Number of Employees	*Total Payroll	% Inc. over Previous Year Employees	% Inc. over Previous Year Payroll
1939	78,129	$122,354,101		
1940	82,831	132,584,063	6·02	8·36
1941	89,536	153,654,368	8·09	15·89
1942	94,592	177,042,773	5·65	15·22
1943	101,126	195,555,045	6·91	10·46
1944	102,764	222,649,839	1·62	13·86
1945	105,624	220,507,637	2·78	*·96*
1946	105,353	237,335,781	*·26*	7·63
1947	108,440	258,337,684	2·93	8·85

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

REVENUE TONNAGE BY COMMODITIES

	Year 1947 Tons	Year 1946 Tons	Increase or *Decrease* Tons	Increase or *Decrease* Per cent
Agricultural Products:				
Wheat	5,682,704	5,630,365	52,339	·93
Corn	571,085	442,398	128,688	29·09
Oats	1,472,167	1,724,535	**252,368*	**14·63*
Barley	1,185,407	1,141,953	43,454	3·81
Rye	220,853	76,929	143,924	187·09
Flaxseed	122,072	104,275	17,797	17·07
Other Grain (including dried peas, beans, soya beans)	159,306	166,668	*7,362*	*4·42*
Flour	1,222,383	1,216,415	5,968	·49
Other Mill Products	2,362,341	2,235,176	127,165	5·69
Hay and Straw	208,363	242,828	**34,465*	**14·19*
Cotton	75,396	92,383	**16,987*	**18·39*
Apples (fresh)	109,979	110,715	**736*	**66*
Other Fruit (fresh)	432,027	470,823	**38,796*	**8·24*
Potatoes	472,754	397,721	75,033	18·87
Other Fresh Vegetables	269,586	262,100	7,486	2·86
Other Agricultural Products	678,649	747,320	**68,671*	**9·19*
Total	15,245,072	15,062,603	182,469	1·21
Animal Products:				
Horses	55,859	68,869	**13,010*	**18·89*
Cattle and Calves	318,005	390,505	**72,500*	**18·57*
Sheep	19,060	27,983	**8,923*	**31·89*
Hogs	159,402	153,108	6,294	4·11
Poultry	227	990	**763*	**77·07*
Dressed Meats or Dressed Poultry (fresh or frozen)	226,116	230,219	** 4,103*	**1·78*
Dressed Meats (cured or salted)	122,777	132,800	**10,023*	**7·55*
Other Packing House Products (edible)	56,621	55,474	1,147	2·07
Eggs	80,326	73,970	6,356	8·59
Butter	52,379	50,205	2,174	4·33
Cheese	52,320	61,519	**9,199*	**14·95*
Wool	47,402	72,043	**24,641*	**34·20*
Hides and Leather	90,654	85,239	5,415	6·35
Other Animal Products (non-edible)	96,528	127,285	**30,757*	**24·16*
Total	1,377,676	1,530,209	**152,533*	**9·97*

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Year 1947 Tons	Year 1946 Tons	Increase or *Decrease* Tons	Per cent
MINE PRODUCTS:				
Anthracite Coal	2,884,036	3,077,841	**193,805*	**6·30*
Bituminous Coal	11,108,778	9,882,636	1,226,142	12·41
Sub-Bituminous Coal	1,282,751	1,346,812	**64,061*	**4·76*
Lignite Coal	440,564	489,580	**49,016*	**10·01*
Coke	942,499	1,274,250	**331,751*	**26·04*
Iron Ores and Concentrates	1,353,480	977,456	376,024	38·47
Copper Ore and Concentrates	180,520	161,310	19,210	11·91
Other Ores and Concentrates	2,110,800	1,348,638	762,162	56·51
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	584,576	506,658	77,918	15·38
Sand and Gravel	2,032,852	1,944,218	88,634	4·56
Stone (crushed, ground, broken)	2,802,921	2,030,272	772,649	38·06
Slate, Dimension or Block Stone	101,407	103,640	**2,233*	**2·15*
Crude Petroleum	571,879	523,124	48,755	9·32
Asphalt (natural, by-product petroleum)	335,703	268,972	66,731	24·81
Salt	527,107	515,273	11,834	2·30
Other Mine Products (not fully processed)	1,911,149	1,440,335	470,814	32·69
Total	29,171,022	25,891,015	3,280,007	12·67
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	972,063	988,519	**16,456*	**1·66*
Cordwood and Other Firewood	424,265	553,648	**129,383*	**23·37*
Ties	53,680	56,505	**2,825*	**5·00*
Pulpwood	5,719,321	4,842,085	877,236	18·12
Lumber, Timber, Box, Crate and Cooperage Material	5,102,127	4,461,841	640,286	14·35
Other Forest Products	343,578	254,088	89,490	35·22
Total	12,615,034	11,156,686	1,458,348	13·07
MANUFACTURES AND MISCELLANEOUS:				
Gasolene	1,771,692	1,726,698	44,994	2·61
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,921,540	1,382,975	538,565	38·94
Sugar	281,504	294,174	*12,670	*4·31
Iron, Pig and Bloom	430,574	290,772	139,802	48·08
Rails and Fastenings	42,105	48,110	*6,005	*12·48
Iron and Steel (bar, sheet, structural, pipe)	2,093,002	1,479,516	613,486	41·47
Castings, Machinery and Boilers	377,146	308,264	68,882	22·35
Cement	740,366	728,357	12,009	1·65
Brick and Artificial Stone	366,417	309,630	56,787	18·34
Lime and Plaster	434,930	371,760	63,170	16·99
Sewer Pipe and Drain Tile	48,395	36,479	11,916	32·67
Agricultural Implements and Vehicles other than Autos	319,432	249,980	69,452	27·78
Automobiles, Auto Trucks and Auto Parts	1,725,981	1,255,043	470,938	37·52
Household Goods and Settlers Effects	24,021	26,815	*2,794	*10·42
Furniture	63,798	64,680	*882	*1·36
Beverages	506,870	506,792	78	*·02
Fertilizers, all kinds	1,189,576	1,266,345	*76,769	*6·06
Newsprint Paper	1,966,108	1,833,686	132,422	7·22
Other Paper	430,121	419,293	10,828	2·58
Paper Board, Pulpboard and Wallboard (paper)	589,387	440,603	148,784	33·77
Woodpulp	1,353,003	1,237,955	115,048	9·29
Fish (fresh, frozen, cured, etc.)	117,885	152,113	*34,228	*22·50
Canned Goods (all canned food products)	762,948	681,801	81,147	11·90
Other Manufactures and Miscellaneous	7,741,115	7,736,068	5,047	·07
Merchandise (all L.C.L. Freight)	2,514,559	2,461,586	52,973	2·15
Total	27,812,475	25,309,495	2,502,980	9·89
Grand Total	86,221,279	78,950,008	7,271,271	9·21

* Decrease.

The CHAIRMAN: That finishes the report. Now, will someone make a motion that we adopt the report?

Mr. MCCULLOCH: I move that we adopt this report.

Mr. LAFONTAINE: I second the motion.

The CHAIRMAN: It is moved by Mr. McCulloch and seconded by Mr. Lafontaine. Is that sufficient, gentlemen? Did we give you plenty of time to discuss the problem in connection with it? All those in favour?

Carried.

Now we have the Canadian National West Indies Steamships, but perhaps we had better take the railway budget. Perhaps you will want to take up the Canadian National West Indies Steamships before you take up your budget. Have you all got copies of the Canadian National budget?

Now, gentlemen, would you like Mr. Cooper to make some explanation of this before you ask him any quesitons? Would that be in order? Would you like to do that, or Mr. Vaughan?

Mr. VAUGHAN: I think Mr. Cooper might read the budget.

Mr. COOPER: The operating budget for 1948 indicates a deficit of $23,400,000. A breakdown of that, showing revenues and expenses as well as other charges, is shown on page 2 of the budget statement. The capital budget amounts to $65,882,200. Additions and betterments amount to $20,250,000. A breakdown of that amount is given in the budget statement on pages 3 and 3*a*. New equipment is estimated at $59,000,000. A breakdown of that is given on page 4 of the budget statement.

The Barraute branch line: The expenditure for that in 1948 is estimated to be $1,440,000. Information with respect to that project is given on page 5 of the budget statement.

Acquisition of securities amounting to $1,007,200, details of which are given on page 6 of the budget statement. Those items all add up to $81,697,200, against which we have $15,815.000 available from depreciation reserves and debt discount amortization, drawing down to a net capital budget of $65,882,200.

In addition to the operating and capital budgets, we are asking for additional working capital to the extent of $20,000,000.

Then, there are two footnotes attached to page 1 which read as follows:

> The 1948 equipment program is estimated to cost $59,000,000. It is anticipated that of this total, the cost of the equipment to be delivered during 1948 will approximate $22,509,000. It is necessary, however, to budget for the additional amount so that there shall be proper authority for the placing of orders not to exceed $59,000,000.

In connection with the Trans-Canada Air Lines, the paid in capital at the end of 1947 was $22,600,000. Their authorized capital is $25,000,000. During 1948, the railway expects to pay the balance of $2,400,000 to enable Trans-Canada Air Lines and its subsidiary to finance the air line's 1948 capital budget.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF FINANCIAL REQUIREMENTS—YEAR 1948

—	1947 Budget	1947 Actual	1948 Budget	Details on page
OPERATING BUDGET—				
Deficit	31,000,000	15,885,194	23,400,000	2
CAPITAL BUDGET—				
Additions and Betterments	18,000,000	10,394,438	20,250,000	3
New Equipment	41,500,000	9,600,860	59,000,000	4
Barraute branch line	2,684,000	1,183,283	1,440,000	5
Acquisition of Securities and retirement of Capital Obligations	1,057,000	795,544	1,007,200	6
	63,241,000	21,974,125	81,697,200	
Less amounts available from Reserves for Depreciation and Debt Discount Amortization	16,518,000	16,087,559	15,815,000	
Total Capital Budget	46,723,000	5,886,566	65,882,200	
Additional Working Capital	....	....	20,000,000	

The 1948 equipment program is estimated to cost \$59 millions. It is anticipated that of this total, the cost of the equipment to be delivered during 1948 will approximate \$22,509,000. It is necessary, however, to budget for the additional amount so that there shall be proper authority for the placing of orders not to exceed \$59 millions.

The authorized capital stock of the Trans-Canada Air Lines is \$25,000,000. The capital paid in to December 31, 1947, by the Canadian National Railways was \$22,600,000. During 1948 the railway may be required to pay the balance of \$2,400,000 to enable Trans-Canada Air Lines and its subsidiaries to finance the air lines 1948 capital budget.

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET

—	1947 Budget	1947 Actual	1948 Budget
Operating Revenues—			
(a) Operating revenues, excluding (b) and (c)	398,411,000	433,124,595	439,816 000
(b) Payment under Maritime Freight Rates Act (20%)	3,042,000	4,141,529	4,280,000
(c) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	707,000	931,856	904,000
	402,160,000	438,197,980	445,000,000
Operating Expenses	380,500,000	397,122,607	413,000,000
Net Operating Revenues	21,660,000	41,075,373	32,000,000
Net Income Charges, excluding interest	8,106,000	13,136,223	11,087,000
Interest on Funded Debt—Public	22,485,000	23,821,910	23,133,000
Interest on Government Loans	22,069,000	20,002,434	21,810,000
Deficit	31,000,000	15,885,194	23,400,000

NOTE: The 1948 Budget includes \$2,847,000 for contribution to the deficit of the I.C.R. & P.E.I. Provident Fund also \$100,000 for contribution to the Grand Trunk Superannuation Fund Association.

No provision is made in the 1948 budget for any additional revenue which may result from hearings now before the Board of Transport Commissioners in respect of increased freight rates; neither is there any provision for further wage increases included in the 1948 operating expenses.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments

—	1947 Budget:	1947 Actual:	1948 Budget:
Additions and Betterments—			
Atlantic Region	1,912,944	1,145,720	1,909,665
Central Region	7,420,829	2,729,056	9,916,680
Western Region	3,878,047	2,323,210	4,882,085
Grand Trunk Western Railway Company	2,476,568	1,135,373	3,684,877
Central Vermont Railway	333,362	164,187	386,670
Subsidiary Companies	3,173,504	2,212,175	1,376,503
Express, Telegraphs, and other Departments	3,157,068	1,371,213	2,588,590
Additions and Betterments to Equipment (Canada)	2,708,541	1,331,062	3,240,595
Equipment Retirements	Cr. 2,060,863	Cr. 2,017,558	Cr. 2,735,665
	23,000,000	10,394,438	25,250,000
Less—Portion of projects included in the above requirements not physically completed by the end of the year	5,000,000	....	5,000,000
Total	18,000,000	10,394,438	20,250,000

(see attachment Page 3-A)

CANADIAN NATIONAL RAILWAYS SYSTEM

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1948

Expenditures Less Retirements Applicable to Capital Account

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Other	Total
	$	$	$	$	$	$	$
Additions and Betterments—							
Rails and Fastenings	110,534	813,178	661,002	216,700	7,038	.....	1,808,452
Tie Plates and Rail Anchors	218,626	597,982	488,320	131,000	42,337	.....	1,478,265
Ballast	366,170	276,750	138,400	239,200	65,895	.....	1,086,415
Widening Cuts and Fills	212,572	.....	72,900	.....	4,750	.....	290,222
Rip-Rap, Retaining Walls and Cribwork	7,850	5,700	94,525	.....	.....	.....	108,075
Ditching, Drainage and Sewers	4,583	6,563	15,720	4,500	.....	.....	31,366
Yard Tracks and Sidings	126,080	953,380	301,512	246,200	.....	.....	1,627,172
Roadway Machines	60,720	119,515	96,125	57,500	6,050	.....	339,910
Bridges, Trestles and Culverts	137,192	525,999	601,050	211,500	36,919	.....	1,512,660
Tunnels	.....	6,450	120,760	.....	.....	.....	127,210
Highway and Crossing Protection	10,000	258,152	43,812	139,400	.....	.....	451,364
Montreal Office Building	.....	2,500,000	.....	.....	.....	.....	2,500,000
Stations and Station Facilities	75,631	1,096,999	1,123,205	301,810	20,296	.....	2,617,941
Water Supplies	4,700	121,309	86,832	22,116	27,486	.....	262,443
Fuel Stations	.....	132,281	77,301	25,000	8,949	.....	243,531
Shops, Enginehouses and Machinery	377,786	2,286,713	520,410	291,547	31,230	.....	3,507,686
Docks and Wharves	36,320	49,360	10,090	267,600	.....	.....	363,370
Grain Elevators	.....	75,000	.....	.....	.....	.....	75,000
Signals and Interlockers	Cr. 639	123,408	161,908	6,000	.....	.....	290,677
Telegraphs—Railway	.....	.....	.....	.....	.....	500,000	500,000
Telegraphs—Commercial	.....	.....	.....	.....	.....	2,000,000	2,000,000
Land	5,000	20,000	6,235	.....	.....	.....	31,235
General Additions and Betterments and Contingencies	156,540	Cr. 61,319	Cr. 192,432	140,000	36,740	Cr. 434,830	Cr. 355,301
Express and Miscellaneous Equipment	.....	9,260	454,410	23,400	2,100	357,770	846,940
Subsidiary Companies	.....	.....	.....	.....	.....	1,376,503	1,376,503
Hotels	.....	.....	.....	.....	.....	165,650	165,650
Additions and Betterments to Equipment	.....	.....	.....	1,361,404	96,880	3,240,595	4,698,879
Equipment Retirements	.....	.....	.....	.....	.....	Cr. 2,735,665	Cr. 2,735,665
Total Estimated Additions and Betterments	1,909,665	9,916,680	4,882,085	3,684,877	386,670	4,470,023	25,250,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31, 1948	.....	.....	.....	.....	.....	.....	5,000,000
Net Estimated Additions and Betterments	.....	.....	.....	.....	.....	.....	20,250,000

CANADIAN NATIONAL RAILWAYS SYSTEM

New Equipment

Canadian National Railways System

2000	50-ton box cars
700	50-ton box cars (G.T.W. Lines)
1000	40-ton automobile cars
500	70-ton gondola cars
500	70-ton hopper cars
250	70-ton service cars
300	50-ton overhead refrigerator cars
50	50-ton overhead refrigerator cars (G.T.W. Lines)
500	60-ton flat cars
75	8000-gallon tank cars
20	1000-HP diesel-electric switching locomotives
10	steel cabooses (G.T.W. Lines)
11	3000-HP diesel-electric road locomotives (G.T.W. Lines)
1	1000-HP diesel-electric switching locomotives (C.V.R.)
2	4500-HP diesel-electric road locomotives
3	electric locomotives
6	multiple unit cars
15	multiple unit steel car trailers (Montreal Suburban Service)
25	air-conditioned coaches
20	sleeping cars
50	baggage cars
50	overhead express refrigerator cars
50	cabooses (converted from box cars)

Total Cost, including Sales Tax and Inspection Charges: $59,000,000.

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Barraute to Kiask Falls, Province of Quebec

Authorized under Statutes of Canada 10 George VI Chapter 41
Assented to August 31, 1946

SCHEDULE OF ACT

Location	Mileage	Estimates: To be Expended: $	Estimates: Average Expenditure Per Mile $
From Barraute to Kiask Falls on the Bell River, in the Province of Quebec	55	4,125,000	75,000

The location surveys for the above line were completed in September 1946 and contract was awarded to the lowest tenderer on December 26, 1946, namely the Therrien Construction Company Limited, for the clearing, grading, culverts and trestles from mileage 0 to mileage 39·02.

Up to December 31, 1947, the contractor completed all of the clearing, 57 per cent of the grading, 56 per cent of the culverts and 57 per cent of the bridges. During the same period the railway has completed 23 per cent of the track laying and 18 per cent of the ballasting.

$1,206,928.56 has been expended on the line under the authority of this Act to December 31, 1947, of which $1,183,283.41 was the expenditure between January 1, 1947, and December 31, 1947.

During the calendar year 1948 it is anticipated that the contractor will complete his contract and the railway the balance of the track laying and ballasting, up to mileage 39·02. While all railway buildings, fuel stations, final ballasting and sidings will not be completed, it is nevertheless expected that the line to mile 39·02 will be in suitable condition to take care of any traffic that may be offering by December 1, 1948.

The estimated expenditure for the calendar year 1948 is $1,440,000.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities and Retirement of Capital Obligations

	1947 Budget $	1947 Actual $	1948 Budget $
Toronto Terminals Railway			
Joint with Canadian Pacific Railway Co. General Additions and Betterments —C.N.R. Proportion 50%	87,500	50,000	25,000
Northern Alberta Railways			
Joint with Canadian Pacific Railway Co. General Additions and Betterments —C.N.R. Proportion 50%.........	350,000	125,000	375,000
Chicago and Western Indiana Railroad			
Advances under agreement of March 1/36	169,500	168,580	172,000
Atlantic and St. Lawrence Railroad			
Purchase of Capital Stock	20,000	21,296	5,000
Final Payment to State of Michigan re Wider Woodward Avenue, Detroit ..	430,000	430,668	430,000
	1,057,000	795,544	1,007,200

CANADIAN NATIONAL (WEST INDIES) STEAMSHIP, LIMITED

	1947 Budget $	1947 Actual $	1948 Budget $
Operating Budget			
Operating Revenues	6,359,000	7,857,470	6,998,500
Operating Expenses	5,293,000	7,028,193	5,929,632
Net Operating Income	1,066,000	829,277	1,068,868
Vessel replacement fund earnings	250,000	266,698	90,000
Interest Requirements on 5%—25-Year Bonds due, 1955, principal amount $9,400,000	470,000	470,000	470,000
Interest on Government Notes and Advances	126,000	103,298	98,868
Surplus	720,000	522,677	590,000
Capital Budget			
General Betterments	—	—	30,000
3 diesel-driven cargo vessels	2,549,900	2,568,268	—
5 vessels from Park Steamship Company	1,540,000	1,334,677	—
	4,089,900	3,902,945	30,000
Less vessels sold—Sale Price	Cr 500,000	Cr 578,000	—
Net Cash Requirements	3,589,900	3,324,945	30,000

NOTE: Funds for Capital expenditures will be taken from the Vessel Replacement Fund.

The CHAIRMAN: Now, are there any questions on that?

Mr. JACKMAN: You are asking parliament, then, for a total of how much, Mr. Cooper?

Mr. COOPER: For the operating budget, $23,400,000. Perhaps, at that stage I should say that figure was made up in January before the award of the Board

of Transport Commissioners was given. Of course, it is also exclusive of any wage rate increases which we may be required to pay, if any, under the applications which are now before conciliation boards.

Mr. JACKMAN: Have you made a preliminary estimate on the basis of the 21 per cent advance in freight rates?

Mr. VAUGHAN: Yes, we have a statement here, Mr. Jackman.

Mr. JACKMAN: Have you made allowance for meeting wage demands?

Mr. VAUGHAN: We have made no allowance for that because we have objected to those wage awards. We have no idea what kind of finding the board of conciliation will bring in, so it is impossible for us to make any provision for that.

Mr. JACKMAN: You are now collecting under the rate decision.

Mr. VAUGHAN: We do not like to admit there is going to be an award against us.

Mr. JACKMAN: You are collecting under the rate decision and, on the basis of that, you would surely want to amend this budget.

Mr. VAUGHAN: Mr. Cooper has some figures which he will give you in that connection.

Mr. COOPER: May I read the revisions which should be made in the budget. It appeared in January the operating revenue, as shown in the budget on page 2, would be $445,000,000. To that should be added the estimated increase under the board's order No. 70425, $30,570,000.

Additional increases granted by the Interstate Commerce Commission under Ex Parte 166, effective about May 1, 1948, is expected to produce additional revenue of $5,700,000. Therefore, at the moment, our estimated revenues in 1948 amount to $481,270,000.

On the operating expense side, we budgeted for $413,000,000. Since the budget was prepared, there has been an increase in material prices. As now estimated there has been an increase of $6,043,000 in material prices since this budget was prepared.

In addition, on our United States lines a 15½ cent an hour increase was granted to the engineers, firemen and switchmen, effective from November 1, 1947. The estimated cost of this to us in 1948 will be $540,000, making a revised operating expense budget of $419,583.

The net operating revenue, as revised, will therefore be $61,687,000. Our interest and other income charges are estimated to be $55,400,000. Therefore our revised net income, as we stand at the present time is $6,287,000 of a surplus as compared with $23,400,000 of a deficit in the budget presented to the committee.

I wish to mention again that the revised budget figures do not make any allowance for any wage increases in Canada which may be granted as the result of applications which are now before boards of conciliation, and the revised budget is also on the assumption that $8,000,000 will be transferred from our deferred maintenance reserve to reduce our operating expenses.

Mr. VAUGHAN: It is made on the assumption that the present high traffic levels will continue, too.

Mr. JACKMAN: What budget do you want us to consider?

Mr. VAUGHAN: You will see, gentlemen, how difficult it is for us to put in a budget until we have something definite concerning this wage situation.

Mr. JACKMAN: What is the aggregate amount of the wage demands?

Mr. VAUGHAN: It will amount, on our lines, to over $90,000,000. As I explained yesterday, every 1 cent per hour added to wages means $2,500,000 increase to us.

Mr. JACKMAN: Do you want us to consider the figures which are not very realistic which have been presented to us in the operating budget, or do you want us to consider some figures which are, perhaps, a little more realistic, if not very real?

Mr. VAUGHAN: We should like you to be realistic about it. We should like to be realistic, too, but I think it will be apparent to you why it would not be wise to even assume what the increase in wages may be.

Mr. JACKMAN: In other words, you would not want us to consider the budget as presented to us before the adjustment for the freight rate increase?

Mr. COOPER: Our budget was prepared in the ordinary way at the ordinary time. A number of things have happened since it was prepared. It was obvious the committee would want to have more up to date information. It was for that reason we have supplied the additional figures.

Mr. JACKMAN: It does seem a little futile to pass on this operating budget when we have certain information concerning changes which have transpired since the end of the year?

Mr. COOPER: What could we do? We could not put the recent events in a budget prepared in January, that was impossible.

Mr. JACKMAN: I am not finding fault with you, but if we are doing anything at all except going through some motions, it seems to be we should work on the present figures. I am not saying they will be much good, either, because you are faced with difficulities.

Mr. COOPER: If you consider our operating budget, you should consider we are estimating a surplus of $6,287,000, but we are making the reservation that it is exclusive of any wage awards which may be granted.

Mr. JACKMAN: May I just ask you something which we all should know on this committee, what is the effect of this committee passing this budget?

Mr. COOPER: I do not believe there is any appropriation being brought down in the House for you to approve. The custom is, that at the end of the fiscal year which will be early in 1949, when the actual results of the operations in 1948 are available, an item will be included in the supplementary estimates presented for approval at that time.

We are of course required under the Canadian National-Canadian Pacific Act, to submit to the government each year a budget for operating and capital purposes. We are complying with the Act. Actually, I do not believe you do anything with this operating budget in the way of voting any money, but the custom is, if the committee is satisfied it is a good estimate, for them they approve it.

Mr. JACKMAN: You have just told us that this revision was made on the basis of present known factors and, in place of a $23,000,000 deficit, you are going to have a $6,000,000 surplus. I am not suggesting that will actually be the case. However, there is a difference of $29,000,000 at the moment. Why should we approve a budget which is drawn up when you were $29,000,000 worse off than you are at the moment?

Mr. VAUGHAN: The main thing in connection with this budget is our capital budget.

Mr. JACKMAN: The difference of $29,000,000 includes some capital items. I just want to know what is the use of working on this budget at all? Why does it come before us? We could approve the capital items, the essential items if necessary, and let the rest go. In other words, I just want to know what we are doing.

Mr. COOPER: Then, I suggest the committee—if I may make a suggestion—should approve the budget as submitted and as revised by the information given to the committee during the proceedings of the committee. In that event, you would be approving a budget estimated to produce a surplus of $6,287,000.

Mr. JACKMAN: In other words, all we do is go on record as having received the evidence.

Mr. COOPER: That is all.

Mr. HLYNKA: Would you care to comment on the reports which have been made in the press that the railways may ask for additional revenues over and above the 21 per cent increase which was recently approved by the Board of Transport Commissioners?

Mr. VAUGHAN: No action has been taken by the railways in that connection. I made a statement, it was more with the idea of pointing out to this committee that, if we have further increases in wages and material costs, we should be able to recover them from some source. Otherwise, how is the railway going to carry on except by going to the government for money.

In answer to your question, no action has been taken or data prepared as yet in connection with a further application.

Mr. HAZEN: Do I understand that a further application has not been made?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: What is the effect of putting in the budget an amount for new equipment of $59,000,000 and yet you only expect $22,500,000 to be delivered? I realize you want to place contracts for the full amount, but in addition to having a large reserve of $37,000,000 there which you cannot use next year because you cannot get delivery you nevertheless want working capital of $20,000,000.

Mr. VAUGHAN: We want to keep this committee fully informed of the situation. We have to have authority to spend this money to order equipment even if it should not be delivered this year. Much of this equipment will not be delivered until next year, but we would not want to mislead this committee and give the committee the idea we had only ordered the amount of equipment that would be delivered this year.

Mr. HATFIELD: I see in this list you have on order 1,000 automobile cars and you only have 350 refrigerator cars.

The CHAIRMAN: What page is that on?

Mr. HATFIELD: It is on this revised equipment list.

Mr. VAUGHAN: Page 4 of the budget.

Mr. HATFIELD: I would think it should be just the reverse of that. Automobiles today are carried by trucks throughout Ontario and Quebec east and west. We are very short of refrigerator cars at all times. You have only ordered 350 refrigrator cars and you have odered 1,000 automobile cars.

Mr. VAUGHAN: There are 300 refrigerator cars on order in our shops now, and there is another order for refigeator cars to be placed later on. We are determining the type of refrigerator. We do a very heavy automobile business. The large automobile plants are located on our lines, at Oshawa and Windsor, and we have been very short of automobile cars. It is true a number of automobiles do move by truck, but there is still a very substantial quantity of them moved by railway.

Mr. HATFIELD: Those automobile cars are practically useless.

Mr. WALTON: No, they are used a lot for lumber and other loading if automobile loading is not available for them.

Mr. VAUGHAN: They are used for other purposes if there are not automobiles to be carried. They are general purpose cars.

Mr. HATFIELD: They might be used for lumber. They could not be used for grain. You are very short of refrigerator cars, especially since the number of refrigerators coming from the United States has been cut down. That has made a great difference in the supply of refrigerator cars.

Mr. VAUGHAN: We are catching up on our refrigerator cars all the time. There have been difficulties in getting cars in the United States, but these will certainly improve the situation very much. We could not get any outside car builders to build refrigerator cars until the end of 1949. We are fully aware we ought to have more refrigerator cars. Of course, a refrigerator car takes a longer time to build and is much more expensive.

Mr. HATFIELD: I realize that, but I think you should have less automobile cars and more refrigerators. That is the way it looks to me.

Mr. VAUGHAN: Mr. Cooper has just drawn my attention to the fact we have on order at the present time about 20 per cent of our ownership in refrigerator cars, that is, we are increasing our ownership by one-fifth in refrigerator cars, which is quite a substantial increase.

Mr. HATFIELD: What does it mean by Grand Trunk Railway refrigerators?

Mr. VAUGHAN: That is what we call the Grand Trunk Western lines, which we operate between Detroit and Chicago and the northern peninsula, Grand Rapids.

Mr. HATFIELD: Do you have to have a different class of equipment to go over that line?

Mr. WALTON: It is not so much a different class as it is a separate item on account of United States construction.

Mr. VAUGHAN: We have to have certain United States ownership for United States lines. We are compelled to do that.

Mr. HATFIELD: You have to have different under equipment, but why should you not order cars to go over all lines when you are ordering them? They do not cost very much more.

Mr. WALTON: They may go over all lines, in the movement of them, but in the construction of them the item is separate because the 300 cars will be built in Canada and the 50 Grand Trunk cars will be built in the United States. The item is separate in the list for that reason.

Mr. HATFIELD: Why do they have to be built in the United States?

Mr. WALTON: I think the customs people would object to us building cars in Canada for definite earmarking to a United States subsidiary ownership.

Mr. HATFIELD: There is no customs tariff on empty cars or cars loaded, is there?

Mr. VAUGHAN: These cars would perhaps come into Canada in the usual interchange of business. Otherwise they would be used for local service on the Grand Trunk.

Mr. HATFIELD: I believe 75 per cent of your reefers were loaned from the different refrigerator companies in the United States?

Mr. VAUGHAN: A large number of them were rented. In seasons when fruits and potatoes and other commodities were moving we rented refrigerator cars from the United States refrigerator line companies.

Mr. HATFIELD: Why should they object to building 50 in Canada?

Mr. VAUGHAN: The Grand Trunk Western Railway, of course, is entirely in the United States, and we are being constantly reminded by the authorities in Washington that we should have more equipment ownership for our Grand Trunk Western lines, for the reason that this equipment is all interchangeable.

As you know there are car service rules in the United States and we are using other railways' equipment all the time. They feel we are not contributing enough cars to the so-called pool over there.

Mr. HATFIELD: That is quite true.

Mr. VAUGHAN: Therefore we have to build a certain number of cars of Grand Trunk Western ownership.

Mr. HATFIELD: I think that is quite true but that is because we have not enough refrigerator equipment. Prince Edward Island and New Brunswick have been short of reefers all season, practically all season, all the winter months to ship potatoes and vegetables, turnips. We have not had half the refrigerators we should have had. Necessarily you have lost the business. The business in my constituentcy has been handled by the Canadian Pacific Railway. You have lost that business on account of not having equipment.

Mr. VAUGHAN: We have lost some business by not having refrigerator cars We had how many delivered last year?

Mr. COOPER: 299.

Mr. VAUGHAN: We had 299 delivered last year. We have got 350 here, and that is going to improve the situation materially.

Mr. WALTON: Plus another 350 in addition to that, which is the carry-over from last year's equipment. They will start to build them in June this year.

Mr. EMMERSON: Are any of those cars being built in the railway shops?

Mr. WALTON: Those 300 which are contemplated will all be built in the railway shops. The 350 we will start in June are also being built in the Transcona shop, our own shop.

Mr. EMMERSON: Are any box cars or flats being built in the Atlantic region?

Mr. WALTON: No. The only new cars, other than the odd piece of work equipment or something of that kind, that we are building or have built in recent years are these refrigerator cars, and the Transcona shop is set up particularly well for that job. They take on the new work and the repair work is distributed elsewhere on the system to make up, so far as we possibly can, for the man-hours that are represented in the new refrigerators.

Mr. EMMERSON: The statement as to increased car work made by one of your officials in Moncton as reported in the papers would refer to additional car repairs?

Mr. WALTON: Yes, not to new building.

The CHAIRMAN: Are there any more questions, gentlemen?

Mr. EMMERSON: There is one question. On page 3 it does not seem very clear. I refer to additions and betterments. What struck me was that item for ballast. I notice the Atlantic region has an item in there for ballast greater than any of the other regions. Is that some policy of improving the quality of the ballast or reballasting?

Mr. WALTON: The quality of the ballast has been improved in recent years since we began to get rock ballast from a pit at Trois Pistoles, but this represents some improvement in quality and some in quantity.

Mr. EMMERSON: It must be mostly quantity?

Mr. WALTON: Very largely quantity.

Mr. NICHOLSON: According to the information I am given the amount for stations and station facilities approved last year was $3,218,000, whereas the actual expenditure was $1,287,000. That means less than half of the amount approved was actually spent. Would it follow that the projects which were approved a year ago will be undertaken this year in all probability?

Mr. VAUGHAN: That work will be carried over into this year, most of it.

The CHAIRMAN: Anything else?

Mr. JACKMAN: There is an item of $2,735,000 for equipment retirement. That is the excess above depreciation on equipment, is it?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: There is a large item here for shops, engine houses and machinery, $2,186,000. What are the major projects included in that item?

Mr. VAUGHAN: That will be spread across the country and used in various shops.

Mr. COOPER: We have the details by regions.

Mr. NICHOLSON: It is quite high in the central region as compared with the Atlantic and western regions.

Mr. COOPER: Which item?

Mr. NICHOLSON: Shops, engine houses and machinery. How is it that item is so much higher for the central region?

Mr. COOPER: I can give you the details of the central region. The estimate is $2,286,000. Suppose I give you the larger items.

Mr. NICHOLSON: That will be quite satisfactory.

Mr. COOPER: At Point St. Charles there is under construction new car repair facilities, wheel shop, extension of storage buildings, including the purchase of the munition buildings from War Assets Corporation. The total capital cost of that project was $1,023,000. We spent $817,000 in 1947. We are revoting $206,000 in 1948, and asking for new funds of $573,000. In all in 1948 we expect to spend $780,000 on the new car shop at Point St. Charles. At Stratford we are constructing an extension to the motive power erecting shop. The amount we expect to spend in 1948 is $346,000. When I say expect to spend, that is the amount for which we ask authority. Whether we have the men and materials to do the work is somewhat of a question. Those two items together amount to $1,126,000. The remainder of the vote is made up of three pages of small items spread across the system.

Mr. NICHOLSON: I notice the total expenditures for the central region are about twice as high for the western region and yet in this one item for shops and engine houses it is about four times as high, but there are those two major items.

Mr. COOPER: The two items I mentioned, Point St. Charles and Stratford, happen to be in the central region.

The CHAIRMAN: Anything else, gentlemen?

Mr. JACKMAN: May I ask how is your progress in getting the AB type brake instead of the K type?

Mr. VAUGHAN: We are progressing on that. We are putting them on as fast as we can obtain them from the air brake company.

Mr. JACKMAN: About what proportion of the equipment of the railway has it now?

Mr. VAUGHAN: I do not think we have got that. We can give it to you.

Mr. WALTON: We are planning to apply AB brakes to 4,300 freight cars this year. That must get us up pretty close to 50 per cent equipped. I am taking that figure from memory, but we are doing as many each year as we can get the AB equipment from the manufacturer. They are prorating them out to everybody, turning out as many as they can manufacture.

Mr. JACKMAN: I understand the United States is approaching about 73 per cent now?

Mr. WALTON: They have probably got pretty well up towards that figure, but as I say, we are limited by what we can get.

Mr. VAUGHAN: We have been taking all they would give us for the last few years.

Mr. JACKMAN: Are they made by the Westinghouse people in Hamilton?

Mr. VAUGHAN: In Hamilton.

Mr. McLURE: If you could persuade the government to refund that tax of about $7,000,000 on sleeping cars and the $9,000,000 in 8 per cent sales tax and the $1,000,000 on telegrams you would not have very much of a deficit. There is $17,000,000 you have paid out.

Mr. VAUGHAN: We would like very much to get it, but I am afraid if they relieve the passenger of paying it they would not give it to us.

Mr. McLURE: The government would not miss it this year based on their $800,000,000 surplus.

The CHAIRMAN: Will someone move the adoption of the budget?

Mr. LAFONTAINE: I so move.

Mr. McCULLOCH: I second that.

The CHAIRMAN: It is moved by Mr. Lafontaine and seconded by Mr. McCulloch. I think the Canada West Indies report is next. It is a small report.

Mr. NICHOLSON: Before we finish with the railways I have been given a statement in connection with the rate on eggs. I think we will have to have some additional information on it at some stage. Mr. MacMillan has given me this memorandum which makes it clear that the rate from points within twenty-five miles of Ottawa still remains at 42 cents for a shipment of 30 dozen in a crate whereas from Edenwold to Regina it does not seem to be very clear to me. The information I have reads:

> Prior to April 8, 1948, a single crate of eggs was carried on a specific minimum of 35 cents provided in tariff issued to meet motor truck competition. Order No. 70425 provided for increase in all minima in motor truck competitive tariff to a single minimum of 75 cents. However, the result of this adjustment is that a single crate of eggs will now move under the normal class rate tariff which provided a specific charge of 55 cents for a 30-dozen crate of eggs.

It does not make it very clear. It is either 55 cents or 75 cents into Regina as compared with 42 cents into Ottawa. Mr. MacMillan spoke to me before we commenced our afternoon meeting. Maybe he can give me some additional information as to why there is this discrimination?

Mr. MACMILLAN: You are satisfied with the freight?

Mr. NICHOLSON: Yes, that seems to be quite clear.

Mr. MACMILLAN: The position with regard to the express is that in the vicinity of Ottawa on this particular commodity there has never been a motor truck competitive tariff, and the traffic moved on the normal class rate. The normal class rate when applied to a 30-dozen crate of eggs gives a rate of 42 cents from Limoges to Ottawa, which is about twenty-five miles. That was the distance you asked us to take.

In the application that resulted in the increase recently there was nothing dealing with express rates other than those express tariffs which had been issued to meet motor truck competition. This was a supplementary application actually to deal with motor truck competition express rates. It was necessary to adjust them to keep express rates related to freight rates. Otherwise you would have had the unusual position of express being carried at a lower rate than freight. Consequently this supplementary application was made and the board in its order authorized an increase in all minima to 75 cents. That

was confined to motor truck competitive tariffs. As there was no existing motor truck tariff at Ottawa the order does not affect the rate here at all, and it remains at 42 cents. In the vicinity of Regina prior to April 8, there were in effect a number of tariffs, express tariffs. Originally the rate that was used to move traffic there was a class rate but because of intense motor competition in the vicinity of Regina a special tariff was published to secure traffic to the railways particularly eggs, bread, cake and ice cream. These commodities were assigned a specific minimum; in the case of eggs it was 35 cents; in the case of cake and bread, they were also 35 cents; but ice cream was 40 cents. This was one of the classes of tariffs, express tariffs which were affected by the board order No. 70425, and under the authority of that order, these specific minima were increased to a minimum of 75 cents, and that competitive tariff is still in effect, but the single crate traffic does not move under that tariff because there is another tariff, the original class rate tariff, which gives the shipper the advantage of the 55 cent minimum. Consequently we provide the lower charge to the shipper, and now the 30-dozen crates of eggs from points in the vicinity of Regina will move into Regina on the class rate tariff, with a specific minimum of 55 cents, and the empty crate is carried back again for ·06 cents.

Mr. Hatfield: What authority did you have for collecting the 10 per cent increase in the American freight rates in Canada? When the first increase was made they had not authority either in Canada or in the United States for making that charge. Now, what authority did you have in Canada for collecting that 10 per cent increase on cars going to the United States? When you carried a car from Nova Scotia or Prince Edward Island clear to Windsor through to Detroit Michigan, you charged the 10 per cent increase on the whole haul. Now, what authority did you have for doing that ?

Mr. MacMillan: Any increase, Mr. Hatfield, was—and I am not familiar with that situation,—but it would be by order of the Canadian Board of Transport Commissioners.

Mr. Hatfield: But you had no order from the Canadian Board of Transport Commissioners; neither did the United States railways have any authority until November. They increased it 20 per cent; and then you had an order from the Canadian Board of Transport Commissioners making the tariff applicable in Canada on goods going into the United States, but you had no authority from anyone to collect that 10 per cent which you collected for two or three months.

Mr. MacMillan: I cannot imagine that we would increase any rate 10 per cent without it being pursuant to a board order.

Mr. Hatfield: There never was any order that I knew of.

Mr. Vaughan: I am satisfied that we never increased any of these rates without a specific order from the Board of Transport Commissioners.

Mr. Hatfield: But the American Congress did not give them any authority until November to increase that 10 per cent rate.

Mr. Vaughan: As a matter of satisfaction we will get those orders and furnish them.

Mr. MacMillan: When was that, Mr. Hatfield?

Mr. Hatfield: All you had to do was to carry the cars from Windsor over to Detroit.

Mr. MacMillan: Do you know the date?

Mr. Hatfield: It was during August or September and perhaps October, and the only time you had authority was in November, some time, you had authority.

Mr. MacMillan: Of what year?

Mr. Hatfield: This year.

The Chairman: Would it be all right if they furnish that information?

Mr. Nicholson: The farmer living within 25 miles of Ottawa, in his case, there is no change on the express rate on his eggs, coming into Ottawa while with respect to the farmer living near Regina, he pays an increased rate of 58 per cent.

Mr. MacMillan: Since your question I have ascertained that there have been a number of representations about this very subject and it is under very active consideration at the moment.

The Chairman: Can we adjourn now? I did promise the boys that we would leave at 5.30, but we will come back at 11 tomorrow and 4 o'clock in the afternoon in order to try and clean up the rest of the bill.

SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

WEDNESDAY, APRIL 21, 1948

CANADIAN NATIONAL (West Indies) STEAMSHIPS LIMITED, Annual Report (1947)

ITEMS 502, 503 and 557 of the Main Estimates—1949

CANADIAN NATIONAL RAILWAYS SECURITIES TRUST, Annual Report (1947)

AUDITORS' REPORT (1947) to PARLIAMENT—CANADIAN NATIONAL RAILWAYS, CANADIAN NATIONAL (West Indies STEAMSHIPS, LIMITED

WITNESSES:

Mr. R. C. Vaughan, C.M.G., President, Canadian National Railways;
Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;
Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;
Mr. N. J. MacMillan, General Counsel, Canadian National Railways;
Mr. O. A. Matthews of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

WEDNESDAY, April 21, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at eleven o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messers, Bourget, Chevrier, Clark, Emmerson, Hatfield, Hazen, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Pouliot, Reid, Warren.

In attendance:

From *C.N.R.:* Messers. Vaughan, Cooper, Walton, MacMillan, Thompson.

From Transport: Messrs. Lessard, Collins and Thornton.

Before proceeding, Messrs. MacMillan and Cooper tabled answers to questions of Messrs. Hatfield, Hazen, Hlynka, Jackman, Nicholson and Reid. It was agreed to incorporate these in the evidence.

Mr. Cooper supplied answers to additional questions of Messrs. Nicholson, Hatfield and Jackman.

The Committee began and concluded its examination of the Canadian National (West Indies) Steamships Limited Annual Report (1947).

Mr. R. C. Vaughan was recalled.

On motion of Mr. McCulloch, the Annual Report of the Canadian National (West Indies) Steamships Limited was adopted.

The Committee then began and concluded its study of Votes 502, 503 and 557 of the Estimates (1949) as referred.

On motion of Mr. Lafontaine, Votes 502, 503 and 557 of the Estimates (1949) were approved and referred back to the House.

The Committee considered the Annual Report of The Canadian National Railways Securities Trust for the year ended December 31, 1947.

On motion of Mr. Lafontaine, this report was adopted.

Messrs. Vaughan, Cooper, Walton and MacMillan were retired.

The Committee began its study of the Canadian National Railways System, Canadian National (West Indies) Steamships, Limited—Auditor's Report for the year ended December 31, 1947.

Mr. O. A. Matthews was called and proceeded to read the Auditor's Report.

At one o'clock the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at four o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Fulton, Hatfield, Hazen, Jackman, LaCroix, Lafontaine, Lockhart, Maybank, McCulloch (*Pictou*). McLure, Moore, Nicholson, Warren.

In Attendance: Same as listed above at the morning session.

Mr. McLure praised Mr. W. S. Thompson, Director, Public Relations, Publicity and Advertising for the manner in which the C.N.R. and T.C.A. Reports were printed.

Mr. Cooper tabled further information in reply to Messrs. Nicholson, Jackman and Hatfield.

The Committee resumed and concluded its examination of the Auditors' Report to Parliament, C.N.R. and C.N. (West Indies) Steamships Limited.

Mr. O. A. Matthews was recalled and questioned.

On motion of Mr. Lafontaine, the Auditors' Report to Parliament—C.N.R., C.N. (West Indies) Steamships Limited, was approved.

In the course of Mr. Matthew's examination, Messrs Vaughan and Cooper supplied answers directly related to the Railways.

Mr. Cooper made a lengthy statement on uniform railway accounting methods referring to depreciation particularly.

Replying to Mr. Fulton, Mr. Walton made a brief statement relating to safety devices.

Mr. Jackman asked for the tabling of the Consolidated Income Account for 1947-48 and fiscal year 1946-47, (not final), of the Hudson Bay Railway

This report was tabled forthwith and it was ordered printed as an appendix. (*See Appendix A to this day's evidence*).

Answers to questions of Messrs. Nicholson, Jackman and Hatfield were ordered printed as appendices. (*See Appendices B. C. D.*)

The Chairman expressed his appreciation to the President of the Canadian National Railways, Mr. Vaughan, and his officials and to the Members of the Committee.

At 6.10, the Committee adjourned until Thursday, April 22, at eleven, to examine the Annual Report of the Trans-Canada Air Lines and the Auditor's Report relating thereto.

ANTONIO PLOUFFE
Clerk of the Committee.

ANSWERS TO QUESTIONS BY Mr. HAZEN

Question: Do you know if the I.F.C. Lines—International Freight Corporation—used Saint John and Halifax as base ports for its South American services prior to the war?

Answer: They did not.

Question: Is it using those ports now?

Answer: No.

Question: Do you know what ports it is using during the winter season?

Answer: Portland, Boston and New York.

Question: Do you know whether it uses the port of Montreal during the summer season?

Answer: No, but it had occasional sailing from Three Rivers in the summer. Its home ports are Boston and New York.

Question: Do you know that the Shepard Line, another American line, entered into competition last autumn or last winter for southbound Canadian newsprint?

Answer: Yes, I am so informed.

Question: Do you know whether or not the Shepard Line uses—?

Answer: The Shepard Line has not used the ports of Halifax, Saint John or Montreal. Their home port is New York.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 21, 1948.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Well, gentlemen, I believe we have a quorum. I believe Mr. MacMillan and Mr. Cooper have some statements to file this morning. Then, perhaps, we could start work on the Canadian National (West Indies) Steamships, Limited.

Mr. MACMILLAN: Mr. Fraser was asked for some information by Mr. Hazen which is contained in this sattement. Mr. Hatfield requested information regarding the international freight rates imposed during the fall of 1947 and requested information as to the authority therefor. The answers to these questions might appear in the minutes.

(Agreed.)

Mr. H. H. Hatfield referred to an increase in international freight rates imposed during the fall of 1947 and requested information as to the authority therefor.

Answer: Effective October 13, 1947, an increase of 10 per cent in these rates was authorized by orders of the Interstate Commerce Commission in application *Ex Parte* 166 and Order No. 69570 of the Board of Transport Commissioners. This was the only increase imposed during the fall of 1947.

Mr. COOPER: Mr. Hazen asked a question concerning the earnings on the tonnage to Portland during the winter season of 1947-1948. Mr. Hazen asked a question concerning the operating expenses for the year 1947 on the line to Portland, showing how much was paid in United States funds. Mr. Nicholson asked about the amount of educational tax collected by the Canadian National Railways in Saskatchewan and the commission thereon.

Mr. NICHOLSON: Mr. Hlynka asked that question.

Mr. COOPER: I believe we said we did not collect any commission, but I find there was a 4 per cent commission.

Mr. Jackman asked for certain percentages which our interest charges bear to the total revenues, and to net railway operating income. He also requested the amount of interest available for the payment of interest, the amount of interest charges in 1922; the amount which was written off under the Capital Revision Act, and how much had been added in the interval.

Mr. Hazen requested the amount of coal purchases divided between Canada and the United States in 1947 and the percentage of coal used on the Canadian lines; that is, the percentage of U.S. coal used on Canadian lines as well as the percentage of Canadian coal used on Canadian lines. He requested similar information with respect to oil.

The answers to those questions might be printed in the minutes.

(Agreed.)

Answers to question by Mr. D. K. Hazen.

Earnings on export tonnage through port of Portland, Maine.

Gross earnings of C.N.R. on export tonnage through the port of Portland, Maine, for the winter season 1947-1948 were $157,965.

Answers to question by Mr. D. K. Hazen.

1. Operating expenses for the year 1947 on C.N.R. line to Portland, Maine, showing amount paid in United States funds.

	Operating expenses excluding depreciation accruals
Canadian funds	$ 236,549
U.S. funds	2,339,322
Total	$2,575,871

2. Expenditures during 1947 for improvements to facilities at Portland, Maine.

Total expenditures amounted to $3,283 against which there were retirements of facilities having a value of $11,222.

Answer to question by Mr. A. Hlynka.

Amount of Saskatchewan Educational Tax collected by C.N.R. and commission thereon:

Tax Collected, $19,899; Commission, $796.

Answers to questions by Mr. H. R. Jackman.

	1939	1943	1947
Interest on Funded Debt	$49,814,378	$30,998,196	$23,821,909
Interest on Government Loans	916,165	18,664,848	20,002,435
Total Interest	$50,730,543	$49,663,044	$43,824,344
Percentage of interest charges to total operating revenues			
Interest on Funded Debt	24·4%	7·0%	5·4%
Interest on Government Loans	·4	4·3	4·6
Total interest	24·8	11·3	10·0
Percentage of interest charges to net railway operating income			
Interest on Funded Debt	400·5	38·0	100·5
Interest on Government Loans	7·4	22·8	84·4
Total interest	407·9	60·8	184·9
Percentage of interest charges to net income available for the payment of interest			
Interest on Funded Debt	398·8	36·3	85·3
Interest on Government Loans	7·3	21·9	71·2
Total interest	406·1	58·2	156·5

The amount of interest charges in 1922 for the various corporations which were consolidated in 1923 to form the C.N. Railway System was $35,123,236.

Under the Capital Revision Act, 1937, all government loans to December 31, 1922 for capital purposes were exchanged for shares of the C.N. Railways Securities Trust. Such loans amounted to $270,037,437. By this adjustment the interest charges of the National System were reduced by $10,801,500 ($270,037,437 at, say, 4% per annum).

Deducting this interest relief under the 1937 Act from the interest charge of $35,123,236 carried forward into the consolidated system accounts in 1923, means that the present system has been required to assume $24,321,736 of an annual interest charge in respect of the debts of the predecessor corporations. The present interest charges of the system (1947) are $43,824,344, the difference, $19,502,608, being the additional interest charge added during the twenty-five-year period 1923-1947. It should be noted although the interest charges in 1922 were $35,123,236, that in the five-year period 1918-1922 the system not only failed to earn any portion of such interest, but had a deficiency from operations (before interest) of $60,784,005 or an average of $12,157,000 per annum.

Therefore the situation is that in the twenty-five-year period since amalgamation the system has incurred interest charges of $19,502,608 per annum,

but has inherited (after allowing for the relief afforded by the 1937 Capital Revision Act) $24,321,736 per annum of the interest charges of the bankrupt predecessor corporations, which of themselves were incapable of earning any portion of their interest.

NOTE.—To afford a measure of comparison there is also furnished figures showing the ratio of fixed charges to revenues for Canadian National Railways, Canadian Pacific Railway and the larger railways in the United States.

RATIO OF FIXED CHARGES TO REVENUES

		Miles of Road Operated	Operating Revenues	Total Fixed Charges	Ratio of Fixed Charges to Operating Revenues 1939	1946
Pennsylvania	1939	10,270	430,930,778	79,595,750	18.47	
	1946	10,113	822,007,585	71,200,374		8.66
New York Central......	1939	11,008	341,086,708	48,103,444	14.10	
	1946	10,745	616,784,755	40,958,739		6.64
Southern Pacific	1939	13,069	217,572,889	30,007,291	13.79	
	1946	12,558	484,836,393	23,112,413		4.77
Atchison, Topeka	1939	13,443	160,039,967	11,056,699	6.91	
and Santa Fe	1946	13,084	411,604,239	8,815,145		2.14
Union Pacific	1939	9,901	164,253,371	14,221,976	8.66	
	1946	9,775	361,395,534	11,749,783		3.25
Baltimore & Ohio	1939	6,307	161,030,252	20,421,656	12.68	
	1946	6,153	304,984,716	17,826,520		5.84
U.S. Class I Roads	1939	233,277	3,995,004,251	607,740,479	15.21	
	1946	227,620	7,627,313,391	469,368,148		6.15
Canadian Pacific	1939	17,176	152,148,993	25,506,522	16.76	
	1946	17,037	294,545,601	18,488,113		6.28
Canadian National	1939	23,668	203,820,187	53,488,165	26.24	
	1946	23,437	400,586,026	46,685,317		11.65

Answers to questions by Mr. Hazen:

Coal purchases divided between Canadian and United States origin—1947:

	Canadian Origin Tons	*U.S. Origin Tons*	*Total Tons*
COAL			
Used on Canadian Lines......	1,725,225	5,298,584	7,023,809
Used on U.S. Lines............	...	986,819	986,819
Total	1,725,225	6,285,403	8,010,628

Total coal used on Canadian Lines: U.S. Coal, 75·5; Canadian Coal, 24·5.

OIL	*Canadian Origin Bbls.*	*U.S. Origin Bbls.*	*Total Bbls.*
Used on Canadian Lines......	675,000	538,300	1,213,300
Used on U.S. Lines............	...	167,700	167,700
Total	675,000	706,000	1,381,000

Total oil used on Canadian lines: U.S. Oil, 44·4 per cent; Canadian Oil, 55·6 per cent.

Answer to question by Mr. A. M. Nicholson:

Revenue per ton mile C.N.R. Lines West of Port Arthur and Armstrong and East thereof for the period 1939 to 1947:

	Revenue to Ton Mile Canadian Lines West	*East*
1939	$.00794	$.01017
1940	.00761	.00937
1941	.00759	.00902
1942	.00846	.00920
1943	.00864	.00911
1944	.00822	.00933
1945	.00820	.00972
1946	.00867	.01015
1947	.00895	.01081

Answer to Question by Mr. A. M. Nicholson:

Cost of providing meals, including provisions, wages, laundry and supervision: 1939, \$1.23; 1947, \$1.52.

Prices charged for meals on dining and cafe cars:

Breakfast		*Luncheon*		*Dinner*	
1939	1947	1939	1947	1939	1947
\$ .50	\$ .60	\$ .75	\$ .95	\$1.00	\$1.35
.75	.95	.85	1.15	1.25	1.60
1.00	1.25	1.00	1.40	1.50	2.00*

*Special Steak Dinner.

Mr. Reid: May I be permitted to ask one question? I think this is the fourth year I have asked this question, but what was the amount of the tax collected in the province of Saskatchewan by the Canadian National Railways? This is the fourth year I have asked for information concerning the amount collected for the province of Saskatchewan. I want to know who gets that and what the amount is.

Mr. Vaughan: We have just filed a statement showing the amount of educational tax collected in the province of Saskatchewan, which amounted in 1947, to \$19,899.

Mr. Reid: Is that the tax on meals?

Mr. Vaughan: Yes, sir.

Mr. Nicholson: I think someone asked yesterday for the amount collected in Quebec.

Mr. Cooper: We were not sure whether it was a question or not.

Mr. Nicholson: I think we should have that, too, if it is not too much trouble, the amount collected in Quebec and the commission.

Mr. Cooper: I do not think there is any commission, but we will get the information.

The Chairman: Are there any more statements to file, Mr. Cooper?

Mr. Cooper: No, sir.

Mr. Nicholson: Before we commence consideration of the West Indies Steamships, I am still not satisfied with the treatment accorded western farmers in connection with the shipment of eggs. I am wondering whether there is any more information available in respect to that.

I have a copy of a telegram sent to the Minister of Transport on April 9, by the Honourable L. F. McIntosh, which reads as follows:—

> Reference Transport Commissioner order 70425 express rate thirty dozen crate eggs Stoughton and Duval to Regina formerly thirty-five cents now seventy cents stop Former rate Dafoe and Davidson to Regina thirty-five cents now seventy-five stop Bulk of eggs handled FOB plant stop Opinion expressed special concessions granted egg shippers has been replaced by regular rate plus twenty-one per cent appreciate your earnest consideration.

Members of the committee will probably recall that Mr. Coldwell raised this question on the orders of the day. The Minister of Transport replied on April 5th confirming this. The information I was given yesterday confirms my claim there is unfair discrimination. The information given yesterday showed the rate from Limoges to Ottawa, prior to April 8, 1948, was 42 cents. As the application for increased express rates was confined to those issued to meet motor competition, the recent order of the Board of Transport Commissioners did not affect this tariff and this express rate was not changed on April 8. From Edenwold to Regina, a similar distance to that from Limoges to Ottawa, prior to April 8, a single crate of eggs was carried on a specific minimum of 35 cents

provided in the tariff issued to meet motor truck competition. Order No. 70425 provided for an increase in all minima in motor truck competitive tariff to a single minimum of 75 cents. However, the result of this adjustment is that a single crate of eggs will now move under the normal class rate tariff which provided a specific charge of 35 cents for a thirty dozen crate of eggs.

I should like to get some information as to why the application applied only to those points where there was struck competition. What is the reason for having a rate of 42 cents in Ontario as compared with 55 cents in Saskatchewan.

Mr. MACMILLAN: In answer to the first part of your question, Mr. Nicholson, the proceedings which were concluded by board order No. 70425, did not deal with express tariffs other than those tariffs which had been issued to meet motor truck competition. The only reason they were included was because they were related to l.c.l. freight rates and it was necessary to adjust them at the same time as the freight rates were adjusted. Otherwise, we would have had them out of line and express package shipments would have been carried on a lower rate than freight shipments.

Express, of course, is a more expensive service. The goods are carried faster and are handled much more quickly. Consequently, they should bear a heavier rate.

There was no intention, in the application which was made in the fall of 1946, to include express rates generally. Consequently, the only express rates which are affected by the order are the motor truck competitive rates. The rates on this type of shipment which prevail around Ottawa are the normal class rates. I imagine this is due to the fact that, at no time, was there motor truck competition carrying the goods at a lower rate and there was never any need, on the part of the railways, to issue a competitive tariff.

In the vicinity of Regina, there was motor truck competition and, in order to secure this class of business for the railways, some years ago, the railways issued a motor truck competitive tariff which gives to the shippers in that community the advantage of a very much lower rate. In this rate, a specific minimum was provided for a thirty dozen crate of eggs.

You will remember I enumerated four commodities, eggs, cakes, bread and ice cream which, when shipped in individual units, were carried at a nominal rate. Since this rate was a motor truck competitive rate, it was affected by the recent board order. These specific charges, being below the minimum specified in the order, were cancelled and, in lieu of them, a single minimum of 75 cents was provided.

Now, it happened—and this in addition to the motor truck competitive tariff—that in the basic express rate which was not affected by these proceedings, there is a specific minimum for a thirty dozen crate of eggs. This rate was 55 cents. This rate was not changed, nor did the railway possess authority to change it. Consequently, we still have two rates applicable to individual crates of eggs but now the lower rate appears in the normal tariff and the traffic moves under the normal tariff.

Prior to April 8, there were two rates in effect, being 55 cents and 35 cents. The railways gave the benefit of the lower rate to the shipper and they are doing that today. It is 75 cents and 55 cents, and the commodity moves under the lessers rate.

This is one of those things which will, in all probability, be adjusted. It is a situation which has appeared and will be studied.

Mr. NICHOLSON: Why the difference between 42 cents and 55 cents. Assuming the logic of the remainder of the argument, why do you figure it costs 42 cents in the Ottawa area as compared with 55 cents in Saskatchewan where we have long stretches of level country; railway employees get the same wages; operations are more economical? Why the 42 cents versus the 55 cents?

Mr. MacMillan: To answer that, Mr. Nicholson, it would be necessary to examine the basis upon which these rates were originally set. They are very old rates. The actual explanation is something I cannot give you at the moment.

Mr. Nicholson: Does this not confirm our fears that this increase is permissive and you are going to make it 21 per cent in some parts of Canada—

Mr. MacMillan: No, that is the impression I wish to put at rest. There is no power to increase the 42 cent rate. The railways have no authority to do so.

The Chairman: Might I interject at this point? I may be wrong, but I believe Mr. Nicholson is under the impression the 42 cent rate applies all over Ontario, and that is not correct?

Mr. MacMillan: No.

The Chairman: It happens that at Ottawa a truck competitive rate prevails, but in other parts of Ontario it does not prevail.

Mr. Nicholson: Is that correct? In what part of the central region does the 55 cent rate apply on eggs?

Mr. MacMillan: It is a mileage rate.

Mr. Nicholson: If I had selected Toronto or Windsor, would this rate not have applied?

Mr. MacMillan: No.

Mr. Nicholson: You would have had a rate of 55 cents in those areas?

Mr. MacMillan: You would have had a mileage rate. I would expect it to be on a parity with the rate out of Regina.

Mr. Hatfield: I would like to ask the witness a question with respect to the matter of an increase in rates on potatoes from New Brunswick, or any maritime province being shipped to Detroit, Michigan. The rate to Windsor is 46 cents a hundred, or it was 46 cents a hundred before the 21 cent increase. The rate to Windsor, Ontario, is 77 cents a hundred which means $190 for a car of potatoes from Charlottetown, Prince Edward Island, to Windsor, Ontario, a distance of 1,800 miles. On the other hand it costs $120 more to get that car of potatoes taken 2 or 3 miles across the river to Detroit.

Mr. Vaughan: With resepct to those rates, Mr. Hatfield, we have not the information here but we can obtain information for you with respect to them. There is no doubt a good reason for the rate existing.

Mr. Hatfield: We used to ship potatoes to Windsor at the 46 cent rate and then just chuck them across to Detroit, Michigan, but then you put in an order that with respect to potatoes destined to the United States the American 77 cent rate would apply instead of the 46 cent rate.

Mr. Vaughan: We will file an answer to that question.

Mr. Hatfield: I have never quite understood that rate which is in effect to Cleveland, Ohio, and some other points in the United States.

The Chairman: You will file that information Mr. Vaughan?

Mr. Vaughan: Yes.

The Chairman: I will ask Mr. Vaughan to now read the report of the Canadian National (West Indies) Steamships, Limited.

Mr. Jackman: Before Mr. Vaughan reads that report I would like to say that I received the return on fatal accidents and injuries in the system for 1946 and 1947. Apart from the misfortunes last year I think the Canadian National Railways is to be complimented on its record in Canada, but I would just like to ask for a comparison over the years as between the C.N.R. record and the records of the class 1 railroads in the United States.

Mr. Vaughan: Our record compares very favourably. We have not got the figures here but we check them from time to time and they are favourable.

MONTREAL, March 10, 1948.

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.,
MINISTER OF TRANSPORT,
OTTAWA.

Sir,—The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1947.

The operating results for the year compare with the previous year as follows:—

	1947	1946	Increase or *Decrease*	
Operating Revenues	$7,857,470.82	$6.669,128.45	$1,188,342.37	17·82%
Operating Expenses	7,028,193.20	4,959,240.08	2,068,953.12	41·72%
Operating Profit	$ 829,277.62	$1,709,888.37	*$ 880,610.75*	

Operating revenues were higher than in any previous year. The number of completed voyages was 64 as compared with 49 in 1946. Export tonnage increased 50,886 tons and import tonnage increased 49,766 tons. Freight revenue increased $1,665,011. Passenger revenue increased from $96,727 in 1946 to $439,799 in 1947. The increase in passenger revenue followed the resumption of regular sailings by the *Lady Nelson* and *Lady Rodney* in July and August, 1947. The demand for accommodation is greatly in excess of the capacity of these two ships. Freight and passenger revenue combined showed an increase of $2,008,083 over the previous year. On the other hand revenues from charter-hire, subsidies, agency fees, etc., fell off by $819,741. The decrease in charter-hire rises from the fact that, while in 1946 four ships were under charter, in 1947 all ships were operated by the Company.

Operating expenses were substantially increased because of—(*a*) the additional number of voyages; (*b*) increased rates of pay and the increased price of fuel, ship stores, etc., and (*c*) increased insurance and depreciation charges. Furthermore, the composition of the fleet in 1947 was substantially different from what it was in 1946. A further $700,000 was charged to operating expenses, representing the balance of the cost of reconversion and overhaul (on owner's account) of the two "Lady" ships after their return from war service.

Operating profit for the year was $829,277, a decrease of $880,610 from the previous year. After adding interest earnings and providing for fixed charges the income surplus for the year was $522,677.

The *Chomedy* and *Colborne* were sold during the year, completing the disposal of the old "C" type ships. The two vessels were sold for $92,535 in excess of their depreciated ledger value, which amount was credited directly to profit and loss accounts.

During the last ten years the operating results, after providing for depreciation on vessels, were as follows:

Year	Operating Revenues	Operating Expenses	Operating Profit
1938	$ 4,915,355 40	$ 4,497,756 42	$ 417,598 98
1939	4,642,306 28	4,347,275 58	295,030 70
1940	5,750,341 42	4,874,386 38	875,955 04
1941	6,756,463 57	5,291,751 92	1,464,711 65
1942	5,600,496 25	4,380,852 94	1,219,643 31
1943	4,492,188 94	3,188,578 72	1,303,610 22
1944	5,378,058 55	3,403,725 74	1,974,332 81
1945	4,412,251 34	2,849,091 51	1,563,159 83
1946	6,669,128 45	4,959,240 08	1,709,888 37
1947	7,857,470 82	7,028,193 20	829,277 62
	$56,474,061 02	$44,820,852 49	$11,653,208 53

During this ten-year period, in addition to paying the interest on its bonds, the Company paid to the Dominion Government $7,683,637, of which $3,126,192 was principal and $4,557,445 was interest. In addition it financed the replacement of its fleet and still has a balance of $2,871,762 in the Vessel Replacement Fund. There is also $1,560,107 in the Self Insurance Fund. In reviewing these results it should be kept in mind that prior to 1925 the Dominion Government paid an annual subsidy of $340,666 to private operators for a service to the eastern group of islands. No such subsidies have been paid since this Company took over the service.

Before the war the fleet comprised the following vessels:—

		Gross Tonnage	Deadweight Tonnage
Lady Drake	Lost by enemy action	7,985	6,370
Lady Hawkins	Lost by enemy action	7,989	6,370
Lady Somers	Lost by enemy action	8,194	4,665
Lady Nelson	Refitted and service resumed	7,970	6,370
Lady Rodney	Refitted and service resumed	8,194	4,665
Cathcart	Sold	3,708	2,950
Cavelier	Sold	3,663	2,950
Chomedy	Sold	6,136	8,600
Colborne	Sold	6,230	8,650
Cornwallis	Lost by enemy action	5,458	8,390
Connector	Sold	1,789	2,781
		67,316	62,761

As presently constituted, the fleet comprises:—

		Gross Tonnage	Deadweight Tonnage
Lady Nelson	Freight and Passenger	7,970	6,370
Lady Rodney	Freight and Passenger	8,194	4,665
Canadian Challenger	Diesel powered and refrigerated	6,745	7,460
Canadian Constructor	Diesel powered and refrigerated	6,745	7,460
Canadian Cruiser	Diesel powered and refrigerated	6,745	7,460
Canadian Conqueror	Non refrigerated	2,930	4,532
Canadian Highlander	Non-refrigerated	2,966	4,532
Canadian Leader	Non-refrigerated	2,930	4,532
Canadian Observer	Non-refrigerated	2,967	4,532
Canadian Victor	Non-refrigerated	2,963	4,532
		51,155	56,075

The Company now faces keen competition in the trade it has done so much to build up. There is some apprehension as to the effect of the import restrictions which the Colonies have seen fit to impose as a result of their shortage of dollars, and the costs of operation have sharply increased. Nevertheless, the outlook for 1948 is reasonably good; and it must be remembered that over and above the financial returns is the tremendous goodwill for Canada which has been engendered and is being continually expanded by this national flag line.

The Directors again record their thanks to the officers and employees for the loyal and efficient services rendered the Company.

For the Board of Directors,

R. C. VAUGHAN,

President.

CONSOLIDATED BALANCE SHEET

AT 31st DECEMBER, 1947

ASSETS

INVESTMENTS:			
Vessels		$9,844,445 48	
Less Accrued Depreciation		*3,113,759 84*	
		$6,730,685 64	
Vessel Replacement Fund		2,871,762 26	
			$ 9,602,447 90
CURRENT ASSETS:			
Cash in Banks	$1,942,818 62		
Special Deposits	5,750 00		
		$1,948,568 62	
Accounts Receivable		68,612 56	
Freight, Passenger and Agency Balances		256,356 13	
Inventories		25,382 17	
Advances to Captains, Crews, etc.		28,927 54	
Due from Insurance Fund		11,382 20	
			2,339,229 22
INSURANCE FUND			1,560,107 75
DISCOUNT ON CAPITAL STOCK			40,000 00
			$ 13,541,784 87

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100 each		$ 40,000 00
FUNDED DEBT:		
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due 1955		9,400,000 00
DOMINION OF CANADA ADVANCES		3,954,796 59
CURRENT LIABILITIES:		
Accounts Payable	$ 546,357 92	
Interest Matured Unpaid	5,750 00	
Unmatured Interest Accrued	156,666 67	
Passage Money paid in Advance	185,237 27	
Accrued Reconversion and Overhaul Expense	588,596 56	
		1,482,608 42
UNADJUSTED CREDITS		150,641 32
INSURANCE RESERVE		1,560,107 75
PROFIT AND LOSS—*Deficit*		*3,046,369 21*
		$ 13,541,784 87

NOTE:—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1947. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships at the 31st December, 1947, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1947, are correctly stated. We have included in our Report to Parliament comments of an explanatory nature regarding the financial accounts.

10th March, 1948.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

	1947	1946
Operating Revenues:		
Freight	$7,365,132 12	$5,700,121 21
Passenger	439,798 74	96,726 72
Agency Fees, etc.	47,307 65	97,436 71
Subsidies	33,567 00	119,587 00
Charter	*28,334 69*	655,256 81
Total	$7,857,470 82	$6,669,128 45
Operating Expenses:		
Voyage Accounts	$6,255,313 10	$4,427,367 90
Depreciation on Vessels	493,593 60	288,092 02
Management and Office Expenses	213,536 62	209,980 03
Pensions	38,449 38	29,021 99
Other Expenses	27,300 50	4,778 14
Total	$7,028,193 20	$4,959,240 08
Operating Profit	$ 829,277 62	$1,709,888 37
Vessel Replacement Fund Earnings	*$ 266,697 59*	*$ 196,887 28*
Interest on Bonds held by Public	470,000 00	470,000 00
Exchange on U.S. Funds	....	8,225 00
Interest on Government Advances	103,298 14	126,499 02
Surplus	$ 522,677 07	$1,302,051 63

CONSOLIDATED PROFIT AND LOSS ACCOUNT

AT 31ST. DECEMBER, 1947.

Balance at 31st. December, 1946—*Deficit*	*$3,661,581 59*
Surplus as per Income Account, Year 1947	522,677 07
Profit on Sale of Vessels	92,535 31
Balance at 31st. December, 1947—*Deficit*	*$3,046,369 21*

The CHAIRMAN: Are there any questions, gentlemen?

Mr. REID: With reference to page 7, does the accountant charge for the reconversion?

Mr. VAUGHAN: The two boats, the *Lady Nelson* and the *Lady Rodney*, were chartered to the government during the war. The government gave us a lump sum for the reconversion of those two boats but that sum was not sufficient to cover the work. In addition, there were substantial amounts to be paid on the owners' account. We received $1,300,000 from the government for those reconversions, in accordance with the charter agreement, but it cost us $1,400,000 more than we received from the government to complete the reconversion. That amount has been included in the operating expenses, part of it in 1946, and $700,000 in 1947.

Mr. JACKMAN: Do I understand that you loaned two boats to the government during the war?

Mr. VAUGHAN: We chartered a number of boats to the government during the war.

Mr. JACKMAN: And the undertaking was to give them back to you in the same condition in which they were taken from you?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: And they gave you how much money?

Mr. VAUGHAN: They gave us $1,300,000 for these two boats.

Mr. JACKMAN: Plus a fee

Mr. VAUGHAN: We received the charter hire all during the war.

Mr. JACKMAN: Yes, that was separate and on its own feet.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And they gave you $1,300,000 for reconditioning?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Did it cost that much?

Mr. VAUGHAN: It cost us over $2,500,000.

Mr. JACKMAN: When are they going to pay you the balance?

Mr. VAUGHAN: They consider the balance is not due because their argument is the additional amount which the reconversion of these vessels cost is a charge which the owner should pay. The government contends that it is maintenance work which would have been required under any circumstances. We were not entirely satisfied with the amount we received. Unfortunately, I think some of our people made an estimate when those negotiations were being carried on with the government, and the estimate was low.

Mr. JACKMAN: The argument is that the boats would have suffered a certain amount of normal wear and tear and the government claims that the $1,300,000 which it gave you to put them in ship-shape condition was merely a measure of that wear and tear? Is that their argument?

Mr. VAUGHAN: That was their argument.

Mr. JACKMAN: Did you write-off a certain amount during each of the charter years?

Mr. VAUGHAN: We wrote-off nothing other than the ordinary depreciation.

Mr. COOPER: Five per cent depreciation.

Mr. JACKMAN: If you take that amount into consideration as a usable fund to put these ships back into condition, does that make up the extra cost?

Mr. VAUGHAN: It would not make up the entire amount.

Mr. COOPER: It is a factor which is to be allowed for in determining the amount due to the owners.

Mr. HATFIELD: I would like to ask this question. How much more tonnage had you in operation in 1947 as against 1946?

Mr. VAUGHAN: I think we had one less boat. We had eleven boats in operation in 1946 and we had ten boats in operation in 1947.

Mr. HATFIELD: You had more in operation in 1947 than in 1946?

Mr. VAUGHAN: I am wrong there. The list in the report contains the fleet which we had prior to the war, and the fleet we had last year. We had more boats under charter last year.

Mr. HATFIELD: You bought some ships during the year?

Mr. VAUGHAN: We lost quite a few ships during the war.

Mr. HATFIELD: Yes, I know but last year did you not buy some ships?

Mr. VAUGHAN: Yes, in the last two years, outside of the two Lady boats, we disposed of our old fleet and purchased new boats with our own money. We bought those boats from the government on exactly the same basis as they sold boats to others. We did not get any preference in prices.

Mr. HATFIELD: I made a protest last year with regard to your not taking freight on in Saint John but taking it on in Halifax, consequently requiring the shippers to pay 8 cents a hundred more freight to ship goods to Halifax when, in fact, the same boat was sailing from Saint John? You have never done anything about that protest and you still refuse to take on potatoes or perishable goods at Saint John. The ship comes to Halifax, stays two or three weeks. You take on freight at Saint John but not at Halifax. What is the reason?

Mr. VAUGHAN: Well Halifax is the home port of those vessels—they usually bring sugar, molasses, or some other commodity which is discharged at Saint John

or through the port of Halifax, but the main cargo for the boats is taken on at Halifax. That is found to be the most satisfactory way of operating the vessels.

Mr. HATFIELD: What do you mean by saying Halifax is the home port? Why is not Saint John the home port?

Mr. VAUGHAN: Halifax is the more suitable home port and has always been the home port for those vessels trading with the West Indies.

Mr. HATFIELD: Yes, but why the discrimination against New Brunswick in favour of Halifax? We have to pay 8 per cent more freight to get our goods to Halifax. We have to ship them a week sooner than we would when shipping to Saint John.

Mr. VAUGHAN: There does not seem to be any way of overcoming that.

Mr. HATFIELD: I do not see why you cannot overcome it, when the vessel sails from Saint John and it could take on cargo at Saint John. Certain cargo originates in New Brunswick but you will not take it on board at Saint John and you make us ship it to Halifax. I do not see any reason for that practice and it has never been explained to me.

Mr. VAUGHAN: Our base of course is Halifax, and that is the reason you have to ship potatoes and other commodities to Halifax and pay the additional freight rate.

Mr. HATFIELD: That is right.

Mr. VAUGHAN: I do not know just how these freight rates work out. Probably in the final analysis the main difference in the freight rate would not be very much. You say it is 8 cents.

Mr. HATFIELD: It is 13 cents a hundred, and 26 cents under the new schedule.

Mr. VAUGHAN: We will look into that. We looked into it once before for you.

Mr. HATFIELD: Last year, but you didn't do anything. I was just wondering why they didn't stop at Saint John, or when they stop at Saint John why they did not take our freight on there.

Mr. VAUGHAN: It would not be practical. We did look into that for you following our discussion last year. We went into it very fully.

Mr. HATFIELD: The only reason that has been given to me so far to account for it is that you open the holds of your boats and keep them up at Halifax for lumber and other cargo, and you put perishable goods in certain holds that would not be opened after Halifax.

Mr. VAUGHAN: We have to have one port for taking cargo on and Halifax is the most convenient port.

Mr. HATFIELD: But you could take on cargo at Saint John too; as a matter of fact, you do.

Mr. VAUGHAN: Yes, we could at Saint John on the northbound voyage but most of our cargo is generally taken on at Halifax.

Mr. HATFIELD: I know, but the ship sails from Saint John. Why does the New Brunswick shipper have to pay a double price to get his goods to Halifax when you load at Saint John?

Mr. VAUGHAN: There is a reason for it, as I explained; that is, the question of the operation of the ships. If you would like a detailed explanation in writing we would be glad to give it to you.

Mr. HATFIELD: I haven't had anything yet.

Mr. VAUGHAN: We will get you something.

Mr. HATFIELD: I cannot see what explanation you can make. If the ship sailed from Halifax I could see why we would have to ship our goods to Halifax, but when the ship sails from Saint John—there are certain ships that do not sail from Saint John—but when they use these ships that do call at Saint John

we have to ship our goods to Halifax, I know that. But there are certain ships which sail from Saint John, and I do not see why those ships cannot take on New Brunswick goods when at that port.

Mr. VAUGHAN: They simply call at Saint John and go to Haliax to complete their voyage.

Mr. HATFIELD: What is that?

Mr. VAUGHAN: They sail from Saint John to Halifax to complete their voyage.

Mr. HATFIELD: I know that.

Mr. VAUGHAN: Their voyage begins from Halifax and ends at Halifax.

Mr. HATFIELD: The voyage begins at Saint John and ends wherever they have to go to.

Mr. VAUGHAN: And it so happens that the crews—

Mr. HATFIELD: And if the ship sails from Saint John you do not need to send goods to Halifax.

Mr. VAUGHAN: The crews are signed on and off at Halifax, supplies are all put on at Halifax, and that is a convenient place from which to operate vessels. However, as I say, I will be very glad to give you an explanation in writing about it.

The CHAIRMAN: Is that satisfactory to you, Mr. Hatfield?

Mr. HATFIELD: That is all I can get.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. HAZEN: I see that the operating expense incurred was $2,066,953. Is there any explanation to be given as to the reasons for that increase? I do not know if it is possible, but is it possible to break those figures down and show what percentage of increase is due to different factors involved; for instance, what part of the increase is due to additional ships employed, what is due to increased rates, what percentage is due to increased insurance, what is due to higher depreciation rates, interest payments and so on. Is it possible to get that?

Mr. VAUGHAN: We could give you information on that. I do not know whether Mr. Cooper has that with him or not.

Mr. COOPER: The cost of freight handling increased $494,795; crew wages increased $433,797; provisions increased $91,814; fuel increased $162,974; deck, engine and steward supplies increased $122,291; repairs $65,968; port and shore expense $258,020; overhaul $66,066; charter hire decreased $163,689; insurance increased $201,270; other vessel expense which included loss and damage claims and incidentals increased $74,316; diesel training expense decreased $32,006; layup expense increased $61,311. Those items add to a total of $1,827,945. Then depreciation increased $205,502. Management and office expense increased $3,557. Pensions increased $9,427; and other expenses, which include advertising and odds and ends, increased $22,522.

The CHAIRMAN: Is that satisfactory, Mr. Hazen?

Mr. HAZEN: It looked to be more than $288,000 odd.

Mr. REID: On page 4, there is an item there which I have been following, the payment of interest of a period of ten years. It appears to me that the interest paid to the government is greater by $1,471,453 than the amount of principal which has been repaid. Could I have an explanation of that?

Mr. VAUGHAN: Mr. Cooper can explain that.

Mr. REID: Over the ten-year period how was it that increased payments are greater by well over a million dollars?

Mr. COOPER: I do not see any relation between the two things. We must pay our interest year by year irrespective of whether we pay off any principal. If in addition to paying our interest we have some surplus money we reduce our indebtedness, that is, to the extent we have surplus funds we reduce the principal. But there is no relationship between the amount of principal paid off and the amount of interest paid.

Mr. REID: What amount of money do you owe the government now, is it $13 million something?

Mr. COOPER: Oh, no.

Mr. VAUGHAN: I should explain, Mr. Reid, that the government charged us, have always charged us interest on deficits which we felt they never should have done, but we are gradually getting that down until the figure is very low. Mr. Cooper can give you those figures.

Mr. COOPER: First, in answer to Mr. Reid, I think he suggested that we owe the government something like $13,000,000. No, we owe the government $3,954,000.

Mr. VAUGHAN: That has been reduced over the years.

Mr. COOPER: In the beginning, in 1929, when this line was being developed we naturally incurred some operating deficits. In the years 1929 to 1934, we incurred deficits amounting to $5,059,000. That has now been reduced to $3,954,000. Now, with respect to the amount of interest which we paid to the government, we have paid to the government during the entire period of operation interest on capital amounting to $1,106,000, and interest on deficit amounting to $3,456,000.

Mr. POULIOT: Mr. Vaughan, could you give me some information about the competition in the West Indies trade which comes from the Alcoa Company, the boats they operate to the West Indies. They operate boats there, do they not?

Mr. VAUGHAN: Yes, sir; we have two competitors. There is Alcoa Company, which operate their own ships to British Guiana; and I understand there is a new line being started up by a Swedish company which is going to operate a line from Montreal to the West Indies.

Mr. POULIOT: Who owns the Alcoa Company boats?

Mr. VAUGHAN: I understand those are owned by the United States, the parent company.

Mr. POULIOT: You have competition in operating your service?

Mr. VAUGHAN: We have one competitor now and we expect to have another when this new line out of Montreal gets in operation. Then, of course, there is the competition with the Pickford and Black, who operate a service to the West Indies out of Halifax.

Mr. HATFIELD: Are your ships filled to capacity the way they have been sailing, were they in 1947?

Mr. VAUGHAN: During 1947, our ships were pretty well filled. We are having greater difficulty now in filling them up. The competition is keener; but we are hoping we can hold our own.

Mr. JACKMAN: Is that Alcoa line owned by the American Aluminum Company?

Mr. VAUGHAN: Yes. They fly the United States flag. There is also the Saguenay Terminal Company, their terminals owned by the Aluminum Company of Canada, and they have some ships. Both of these lines carry bauxite up the Saguenay River and then come to Montreal in summer to load cargo.

Mr. JACKMAN: Where they fly the American flag they have to pay the American merchant marine standard of wages. Their cost of operation must be higher than it is for the Canadian ships.

Mr. VAUGHAN: I think that is right. Their rates are higher than the Canadian rates. But these, both the Saguenay Terminals and the Alcoa Company have the advantage of carrying their product, bauxite, up the Saguenay; and, of course, anything they can handle that is going south as general cargo is all to the good.

Mr. JACKMAN: I do not see why ships owned by an American company should be allowed to do that. By the way, are the bauxite mines owned by the Canadian Aluminum Company?

Mr. VAUGHAN: The bauxite is used by the Aluminum Company. It comes from British Guiana.

Mr. JACKMAN: I suppose the mines are owned by the Canadian company?

Mr. VAUGHAN: I do not know who owns the mines, whether it is the American company or the Canadian company. But, getting back to the operation of United States ships; as you know, most of the United States lines get a subsidy directly or indirectly on the construction or operation of their vessels.

Mr. HATFIELD: That is just the reason I was asking you about not taking on cargo at Saint John. Why don't you load cargo at Saint John, and then we would give you the preference, because we would get a cheaper freight rate from Saint John.

Mr. VAUGHAN: Well, as I said—

Mr. HATFIELD: But if you are taking on cargo at Saint John and have to ship the stuff to Halifax you are going to lose out to a competing line.

Mr. VAUGHAN: As I said, I will look into that and give you a report.

Mr. JACKMAN: Mr. Vaughan, do you consider the subsidy received by the American merchant marine to be unfair competition, that it is holding you back?

Mr. VAUGHAN: There are many factors involved in that, Mr. Jackman. For instance, I think it would be difficult for the United States vessels, vessels flying the United States flag, to compete with other maritime nations if they were not subsidized in some form by the United States. In a great many cases the United States, I understand, has constructed boats and chartered them to operating companies.

Mr. JACKMAN: To operating companies outside of the United States?

Mr. VAUGHAN: No, in the United States; but they do not have to pay the full interest on cost, as I understand it.

Mr. JACKMAN: These American lines are cutting into your traffic, according to the statement you made a little while ago.

Mr. VAUGHAN: Yes, the Alcoa Company cuts into our traffic very heavily, especially from Montreal.

Mr. JACKMAN: There is no corresponding subsidy on the part of the Canadian government to our merchant marine, is there?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: Then I have another question on the point which came up some time ago about the cost of reconditioning these two ships. If you were a privately-owned company with no government content whatever would you feel justified in going to the Exchequer Court of Canada for an interpretation of the contract to get a claim?

Mr. VAUGHAN: It is difficult to say what we would do under those conditions. I think the situation with regard to these boats is a little different. The Canadian National West Indies Company is not a Canadian National corporation. We do not own any stock in it. In this case it is a question of charging the amount to operating expenses and returning less profits to the government.

Mr. Jackman: You just manage these companies, is that it?

Mr. Moore: I wonder if Mr. Vaughan could tell us the relative cost of operating steam-driven ships and diesel-engined ships?

Mr. Vaughan: We think it is cheaper to operate these diesel vessels. For instance, you take a Lady boat, every day she is at sea it costs $1,947 to operate her. On the diesel boats the cost is $975 per day. And on these smaller ships the 4,500 tonners, the operating cost is $681 per day. The cost of operation and the wages for the men, have gone up very materially. Consider an able-bodied seaman in 1939; he got $52.50. Now he will earn—

Hon. Mr. Chevrier: $132.

Mr. Vaughan: He got $155 in 1947. Take the ordinary seaman as distinguished from the able-bodied seaman. In 1939 he got $36.75; now he gets $135. An oiler got $43.20 in 1939; now he gets $160. In 1948 they will get more because their rates have been revised upwards again.

Mr. Reid: That was with meals and linen and everything found?

Mr. Vaughan: Yes, they get their meals and they are paid for an 8-hour day.

Mr. Moore: These diesel boats will require fewer men to operate, will they not?

Mr. Vaughan: With ships of similar capacity they require fewer men to operate because they do not need so many firemen. That is where the saving is made.

Mr. Nicholson: On page 6 in connection with the insurance fund I notice there has been some improvement during the year. Could we have some statement as to the losses paid out of this fund during the year? A year ago the insurance fund was $1,338,000; this year it is up to $1,560,000.

Mr. Cooper: In 1947 our income from investments was $38,000; profit on securities, $38,000; premium paid into the fund, $217,000, making a total of $294,000. The losses were $65,000; administration expense, $6,000. There was a credit adjustment with respect to unadjusted losses of $33,000, making the disbursements of the fund $38,000; the net income of the fund for the year therefore was $225,000.

Mr. Hazen: Take the *Chomedy* and the *Colborne;* how much did you get for each one?

Mr. Cooper: The *Chomedy* was sold to some firm in South America for $300,000. It stood in our books at $235,000. We made a book profit of $64,000. The *Colborne* was sold to some Greek interests. The net ledger value was $250,000 and we recovered $277,000; making a book profit of $27,000.

Mr. Hazen: That does not show in the statement.

Mr. Cooper: No, not in the income statement.

Mr. Hazen: You show us the profit on the sale. That is the only place it appears on profit and loss?

Mr. Cooper: Yes. We considered the $92,000 as profit from the sale of capital assets.

Mr. Vaughan: It is mentioned in the report.

Mr. Hazen: I am asking for information as to why these items do not show under your income account.

Mr. Cooper: We do not think the profit on the sale of a ship which is a sale of a capital asset is an income item; it is a capital gain and creditable to surplus rather than to income.

Mr. MOORE: I notice the government lost several of the Lady boats during the war due to enemy action. Does the company receive anything for those losses or is that a dead loss?

Mr. COOPER: In the case of the *Lady Somers* we recovered from the British Ministry of War Transport $1,800,000; for the *Lady Hawkins* we recovered by way of insurance $1,500,000; and for the *Lady Drake* we recovered insurance of $1,500,000.

Mr. NICHOLSON: Each year we have some discussion on this profit and loss deficit item. Have any representations been made to the government during the year to get parliament to vote sufficient money to relieve you of this obligation?

Mr. VAUGHAN: Representations have been made on a great many occasions. We did not make any progress on it. I do not think we had it up during last year. We did get them to reduce the interest rate on the deficits, from 5 to 2½ per cent.

Mr. COOPER: That was three or four years ago.

Mr. VAUGHAN: Yes, from 5 per cent to 2½ per cent. Five per cent deficit was charged by the government for many years on deficits incurred in the early stages of operation. You will notice, notwithstanding that we have paid all this interest, we are paying substantial amounts on the principal. We have also built up a substantial reserve and have a new fleet.

Hon. Mr. CHEVRIER: The matter has not been up for discussion since the statement I made in the committee in 1946—I think it was in 1946.

Mr. NICHOLSON: Yes. Two years ago the minister made a statement, and the matter was up again a year ago.

Mr. VAUGHAN: I think it is considered that an Act of parliament would be necessary.

Mr. NICHOLSON: In view of the circumstances outlined two years ago, members of the committee thought that the officials of the company made a good argument and might get support in parliament for getting legislation passed to right an injustice which has extended over a number of years.

Mr. VAUGHAN: We have made as strong representations as we can on many occasions and we have got the interest reduced from 5 per cent to 2½ per cent on these deficits. There is still $9,400,000 worth of bonds outstanding which are 5 per cent bonds and which are not callable. If we could refund those bonds we could probably do so at 3 per cent, but we cannot; they are not callable until they expire.

Mr. JACKMAN: Inasmuch as an Act of parliament is not required to reduce interest rates from 5 per cent to 2½ per cent, perhaps the minister will tell me what the reasons were for allowing the reduction of 2½ per cent—

Hon. Mr. CHEVRIER: The question of interest is not one handled by the minister, it is dealt with by the officers of the Finance Department. I think you are familiar with that; it was discussed last year. What Mr. Nicholson has in mind is pretty much the same thing as the recapitalization of the Canadian National Railways.

Mr. JACKMAN: I think the deficits are on a different footing.

Hon. Mr. CHEVRIER: There is not a great deal of difference between that and the wiping out, for instance, of arrears of interest of a government agency such as the National Harbours Board or a Crown company, if that is thought fit; but the Department of Finance, which is chiefly responsible to the government for the financial position, has taken the view they should

not do it. The reasons I gave are set out in the report of the committee in 1946, and it has not been up for discussion as far as I am aware, in the interval—certainly not in 1947.

Mr. Nicholson: As Mr. Jackman points out, it is a different category. We paid a subsidy of $340,000 per year prior to the Canadian National Steamships company being set up, and it is not fair that such a large deficit should be allowed to accumulate without something being done.

Hon. Mr. Chevrier: The Department of Finance officials do not think so.

Mr. Hatfield: It is all one family.

Hon. Mr. Chevrier: Yes.

Mr. Lockhart: With regard to this balance sheet and the income on operating expenses and revenues, Mr. Vaughan, are all your inland services included in this?

Mr. Vaughan: No, sir, this is just the West Indies Steamships.

Mr. Lockhart: There is nothing else?

Mr. Vaughan: Nothing else.

Mr. Jackman: Mr. Cooper, as much as you do not take any capital profit arising from the sale of the two ships, do you think it was reasonable to load last year's operating expenses with the full $700,000 representing part of the cost of reconversion of the two Lady ships?

Mr. Cooper: I think you have a point there; we gave it some thought. I think some portion of the cost could have been charged to profit and loss or depreciation reserve, but we stated our accounts on a conservative basis. We had this $700,000 to pay out during 1947 and we dealt with it as an operating expense.

Mr. Jackman: Looking over the statement on page 8 of operating expenses where does one find the $700,000? Is it in the voyage account?

Mr. Cooper: Yes, it is in the voyage account.

Mr. Jackman: That is rather odd, is it not, to include a capital reconversion expense in a current operating account?

Mr. Cooper: Well, it is really overhaul—delayed or deferred maintenance, if you wish. It is definitely an operating expense. Some portion of it could be—

Mr. Jackman: Is it not a capital expense rather than an operating expense?

Mr. Cooper: Well, it is putting the ship back into condition; it is not improving the ship. It is putting it back into a serviceable condition. Basically it is an operating charge. Some portion of it might be assigned to the prior period, but it would add up to the same thing.

Mr. Jackman: What I had in mind is that certain private yachts and other small craft turned over to the government—I think in many cases free of charge—were returned to the private owners fully reconditioned and that expense was borne by the government. Would it not have been fair if the government had returned your ships fully reconditioned or given you a sufficient sum to recondition them yourselves?

Mr. Cooper: You must remember that during the war they paid us a charter hire which was intended to cover interest, depreciation and management expense. Now, the dry-docking of the vessel which ordinarily would have taken place during the war years had to be deferred because the ship had to be kept running; and to the extent that work was considered a charge against the owner (because he had received charter hire for it), the contention was, (and I think there is considerable justification for it) that the shipping company should assume a portion of the reconditioning expense. The government figured they should pay $1,300,000 and the balance should be charged to the owner.

Mr. JACKMAN: Without being critical of the accounting procedure, and having the benefit of hindsight, what really happened was that you did not set up enough charges against these vessels during the war years. It costs far more, considering the increased cost of reconversion at the end of the period, than had been estimated. Is not that the case?

Mr. VAUGHAN: It is fair to say, I think, that when these ships went into dry-dock for the reconditioning it was found there was a lot more wear and tear on the ships than we expected. I believe that would have occurred whether the boats were in the service of the government or not. There were a great many deck plates and partitions and such things which had gone to the point where they absolutely had to be renewed. Probably, that would have taken place whether the boats were in the service of the government or not. These defects were not apparent until the boats were opened up.

Mr. HATFIELD: I should like to ask why it takes your boats twice as long as your competitors' boats to load at ports? Why is that?

Mr. VAUGHAN: I do not think that is a fact, it does not take longer.

Mr. HATFIELD: I beg your pardon?

Mr. VAUGHAN: I think it takes about the same time to load our ships as it does any other boats loading similar cargo.

Mr. HATFIELD: You hold your boats ten days and the Alco boats come in and load in two days.

Mr. VAUGHAN: As I said before, Halifax is the home port of our boats and New York is the home port of the Alco boats. We have to do general work on our boats in Halifax since the voyage is terminated there, but they do their work in the United States.

Mr. EMMERSON: Is it not generally considered to be a fact that it takes a longer time to turn a ship around in Halifax than it does in Saint John? Does it not cost you more to operate out of Halifax than it does in Saint John?

Mr. VAUGHAN: There is quite a controversy between Halifax and Saint John as to which is the best port to use.

Mr. HATFIELD: Your boats do not get service?

Mr. VAUGHAN: Our boats run on a schedule and the other boats do not always run on a schedule. These boats arrive at and depart from the islands on scheduled dates. Sometimes the boats are behind time due to labour conditions.

Mr. EMMERSON: Do you find it takes a longer time to handle a cargo in Halifax than it does in Saint John?

Mr. VAUGHAN: I believe during the war period it did.

Mr. EMMERSON: I am thinking of this past winter and a year ago.

Mr. VAUGHAN: I do not think so. I would say conditions are about the same. We take on a great deal more cargo at Halifax; that is where our boats take on their principal cargoes.

Mr. HATFIELD: I think it costs more in Halifax. I have watched them load.

Mr. VAUGHAN: The stevedoring rates are the same.

Mr. EMMERSON: The rates are the same, but the amount of work may not be the same.

Mr. HAZEN: May I ask one question? Perhaps it is a minor one, but I do not understand it. The consolidated income account shows a surplus of $522,677.07. I just happened to be glancing at the auditor's account and he shows the surplus as $523,000. There is a difference of one thousand odd dollars and I am wondering how that comes about?

Mr. COOPER: You will have to ask the auditor about that.

The CHAIRMAN: Could we ask the auditor about that when he is on the witness stand?

Mr. JACKMAN: I have no background of the earnings of the other shipping companies—

Mr. COOPER: I can answer the question now. We show the precise figure, $522,677.07 and the auditors say, "For the purpose of simplified reference, the amounts shown in this report in connection with the West Indies Steamships as well as the railways are to the nearest thousand dollars."

Mr. JACKMAN: Mr. Vaughan, I have no background of the earnings of other shipping companies, but were they generally lower last year? In this case, you had an increase in operating revenues; your ships were fully loaded; your passenger lists were filled and yet you show a substantially less amount of earnings than the previous year. Do you feel satisfied with the work of the management of the Canadian National (West Indies) Steamships Line?

Mr. VAUGHAN: Yes, I think the Canadian National (West Indies) Steamships Line is very well managed. It is handled by experienced men. Of course, there is seven hundred odd thousand dollars in there for the reconversion of these boats. There are, tremendously increased costs of operation but our situation is in line with all other steamship companies.

These expenses are watched very carefully. There have been unusual operating conditions in the West Indies; labour conditions have been very bad; there have been strikes at the ports of call and the cost of handling has gone up tremendously.

Mr. JACKMAN: Have you not raised your freight or passenger rates?

Mr. VAUGHAN: Yes, we have raised both the freight and passenger rates to try to meet that situation. Our freight and passenger rates are comparable with the rates out of New York for similar destinations.

Mr. JACKMAN: Apart from the $700,000 charged for the reconditioning, it was not a very satisfactory year in view of your volume, or do you think your profits in the war years and the first post-war year were rather exceptional?

Mr. VAUGHAN: During the war years, Mr. Jackman, the expenses were not nearly as high as they are today. They do not compare with expenses today both in respect to wages and the cost of material, nor did we experience the labour troubles in the West Indies islands which we have at the present time. I do not know whether we have the charge for handling which applies in the West Indies islands, but at some of those islands it cost us $6 a ton to handle freight.

Mr. JACKMAN: Is it a fact that some of the ships were under charter to other parties? They were not under charter to the government?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: To private parties?

Mr. VAUGHAN: To outside parties.

Mr. JACKMAN: You made more money by leasing your ships to private interests than you did operating them yourselves?

Mr. VAUGHAN: I would not say so. We had some ships chartered this winter and we did not do very well on them.

Mr. POULIOT: Your freight rates must be quite similar to those of competitive companies?

Mr. VAUGHAN: Yes, they are similar.

Mr. POULIOT: When someone uses your ships for shipment, it is due to the fact the service received from your company is appreciated?

Mr. VAUGHAN: We hope it is. We think so, yes.

Mr. POULIOT: It must be so.

Mr. McCULLOCH: I move the adoption of the report.

Mr. LAFONTAINE: I second the motion.

Carried.

The CHAIRMAN: Gentlemen, the minister will have to be in the House this afternoon, because the House is considering the freight rates question. Could we take his estimates next? There are just three items.

Hon. Mr. CHEVRIER: There are three small items which are taken from the committee of supply and referred to this committee. There is vote 502, the Maritime Freight Rates Act. It is a vote of $4,280,000 which covers the 20 per cent reduction in the tariff of tolls on freight movements over the Canadian National Railways lines only in the preferred territory.

The CHAIRMAN: We are considering item 502 on page 74 of the estimates for 1949.

Hon. Mr. CHEVRIER: This year it amounts to $4,280,000, and last year it was $3,042,000. Then, perhaps you will remember, in a further supplementary prior to March 31, 1948, there was another small sum voted.

Mr. REID: Will this 21 per cent increase in freight rates mean the country will be paying less under the Maritime Freight Rates Act?

Hon. Mr. CHEVRIER: It will mean an increase in the amount to be voted under the Maritime Freight Rates Act.

Mr. REID: The consumer will pay 21 per cent more under the Act plus the addition here?

Hon. Mr. CHEVRIER: Not plus the addition; this has no reference at all to the increase in freight rates.

Mr. LOCKHART: That is an additional amount which will be added on top of this?

Hon. Mr. CHEVRIER: Yes, it is statutory. It is provided by the Maritime Freight Rates Act.

Mr. REID: This is to take care of the difference between the normal toll and what the railways consider it costs to carry the freight?

Hon. Mr. CHEVRIER: No, the Maritime Freight Rates Act, section 9, which is somewhat lengthy but which perhaps can be paraphrased this way says; if it costs a dollar to move an article in the preferred territory, 80 per cent of that is paid by the shipper and 20 per cent is paid by the government. The Canadian National Railways get the dollar. In other words, the railways get the normal rate, but the difference between the normal rate and the subsidized rate is voted by parliament.

The CHAIRMAN: Shall vote No. 502 carry?

Carried.

What about vote No. 503?

Hon. Mr. CHEVRIER: It is for the same thing except that it is for other railways in the preferred territory.

Carried.

The CHAIRMAN: There is another item, vote No. 557.

Mr. NICHOLSON: I thought votes Nos. 498 and 499 were to be referred to this committee. There was a request a year ago or so that the Hudson Bay Railway Company be referred to this committee.

Hon. Mr. CHEVRIER: Those items have never been referred to the committee because there was no provision for it. A request was made a year or two ago to have a full discussion of the Hudson Bay Railway. We brought Mr. MacLachlan, who is manager of the railway down to Ottawa so he might be examined. There was no request for that this year. It is a rather costly thing to have him come all the way from Churchill or The Pas.

Mr. NICHOLSON: I think he has only been here once. I have not any questions to ask, particularly, this year, but I imagine it would be in order to ask questions of the Canadian National Officials?

Hon. Mr. CHEVRIER: I doubt whether those officials are ready to reply to questions concerning the Hudson Bay Railway. Mr. MacLachlan, who is the manager, is fully familiar with the details. There was a specific request that be be brought here a year or two ago. The custom over the years, has been to refer only these three votes to the committee. I do not see how you are going to be affected in any way. If you wish to ask any questions which I can answer, I shall be glad to do that. If I cannot answer you here, I will be ready to do so in the House when the estimates are being considered.

The CHAIRMAN: We are considering vote No. 557. Shall it carry?

Hon. Mr. CHEVRIER: This is concerned with the Prince Edward Island Car Ferry deficit.

Mr. HAZEN: I do not know whether you are correct in calling it a deficit.

The CHAIRMAN: It is to take care of that deficit. Shall it carry?

Carried.

Then, we have the Canadian National Railways Securities Trust.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 19th February, 1948.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1947.

The book value of the capital stock of the Securities Trust has been decreased during the year by $1,885,469.41 due to the following capital losses charged to Proprietor's Equity and in respect of which His Majesty has not made cash reimbursement to the Railway:—

Abandonment of 12·21 miles of line, Trelle Junction to Morinville..	$ 106,034 46
Retirement of Victoria, B.C. Dock Property..........................	246,582 22
Retirement of Canadian Lines' Rolling Stock Equipment...........	1,532,852 73
	$1,885,469 41

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at December 31, 1947.

(F. P. VARCOE,)
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31st DECEMBER, 1947

ASSETS

Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805 10	
Grand Trunk Railway		118,582,182 33	
Grand Trunk Pacific Railway		116,006,599 08	
Canadian National Railway Company		96,936,971 75	$ 643,860,558 26
Claims for Interest on Loans—			
Canadian Northern Railway		$309,702,897 65	
Grand Trunk Railway		103,250,802 95	
Grand Trunk Pacific Railway		107,326,622 84	
Canadian National Railway Company		54,501,313 57	574,781,637 01
Transactions subsequent to 1st January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:	Year 1947	Total to Date	
Surplus Earnings	....	$112,502,061 64	
Capital Gains	....	19,105,651 38	
Capital *Losses*	*$1,885,469 41*	*23,127,015 88*	108,480,697 14
Collateral Securities—			
As per Schedule A.1			....
			$ 1,327,122,892 41

LIABILITIES

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock:— Initial stated value	$270,037,437 88	
Gain from transactions subsequent to 1st January, 1937—per contra	108,480,697 14	$ 378,518,135 02
Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value		948,604,757 39
		$ 1,327,122,892 41

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1947.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1947, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

19th February, 1948.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government to the Securities Trust

Loans Outstanding		*Notes and Collateral Held	
Canadian Northern Railway:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June, 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	{6% Demand Note	5,700,000.00
		{3½% and 4½% Debenture Stocks	7,139,399.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	{Miscellaneous Bonds and Debentures	14,097,470.59
		{Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
Grand Trunk Railway:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	{4% Demand Note	15,000,000.00
		{4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	{4% Debenture Stock	60,801,700.00
		{6% 2nd. Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$ 118,582,182.33		
Grand Trunk Pacific Railway:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st. Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

SCHEDULE A. 1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr.* *1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr.* *364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
Temporary Loan 1930, repaid	....	166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr.* *1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st. Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

The CHAIRMAN: This is a very short report. Are there any questions?

Mr. JACKMAN: This first page simply means that, owing to the abandonment of 12 miles of track, and certain retirements, $1,885,000 is taken from the debt of the government and transferred to the private account.

Mr. COOPER: The amount of $1,885,000 covers three items. It is not restricted to the abandonment of the 12 miles.

Mr. JACKMAN: No, it is transferred from debt to the proprietorship account.

Mr. COOPER: It is written out of the investment account and charged against the shareholders' account, which is called the proprietor's equity.

Mr. JACKMAN: Does it make for a lessening of the debt?

Mr. COOPER: No, it results in a reduction of the proprietor's equity

Mr. JACKMAN: That is just a loss?

Mr. COOPER: It is a capital loss.

Mr. JACKMAN: It is lost sight of?

Mr. COOPER: It is not lost sight of; it is reported to parliament and it is in the record. There is no concealment about it.

Mr. JACKMAN: Not this year, but after we adopt this there might be.

Mr. COOPER: The proprietor's equity account is reduced by this amount and that is the end of it.

The CHAIRMAN: Are there any other questions?

Mr. LAFONTAINE: I move the adoption of the report.

Mr. EMMERSON: I second.

Agreed.

The CHAIRMAN: Now, we have the auditor's report.

Mr. EMMERSON: Mr. Chairman, what about the Canadian National Steamship budget?

Hon. Mr. CHEVRIER: That was passed yesterday.

Mr. VAUGHAN: It was on the last page and the capital charge was very small.

Hon. Mr. CHEVRIER: I was not here yesterday having had to be in the House, but I am informed that it went through with the budget of the C.N.R.

Mr. JACKMAN: As a matter of form it did not, but I do not object.

The CHAIRMAN: We will proceed with the auditor's report.

Mr. O. A. Matthews, of George A. Touche & Company, Chartered Accountants, called:

The CHAIRMAN: Gentlemen, this is quite a long report and I do not believe that it is necessary to read it all. Perhaps Mr. Matthews could take a paragraph, or a section, or a page at a time and the members may ask questions.

Hon. Mr. CHEVRIER: Perhaps Mr. Matthews might give us the highlights. This is a pretty difficult document to follow; it is very technical, but of course I have no objection to it being read.

Mr. NICHOLSON: I think we are making very good progress and I do not see why Mr. Matthews should not take the time to read the report.

Mr. MCCULLOCH: Time means nothing.

Mr. JACKMAN: Well, you may be excused.

Mr. MCCULLOCH: I am not taking any back talk from you.

Mr. JACKMAN: Time may be nothing to you but it is to me, and this is a most important matter before the committee.

Mr. NICHOLSON: I think it is unfair that government members of the committee should rush us constantly. I think the member for Rosedale is quite in order in the comment he has made.

Hon. Mr. CHEVRIER: There has been no rushing.

Mr. NICHOLSON: There have been rude remarks passed as we have been proceeding.

Hon. Mr. CHEVRIER: I have not made any rude remarks.

Mr. NICHOLSON: No, but I think there have been a number of rude remarks that have been uncalled for.

The CHAIRMAN: I have tried to work with the committee. I do not know whether you were here yesterday at 4.00 o'clock, Mr. Nicholson, but I suggested that the committee should give me some advice as to when I should ask the Trans-Canada Air Lines officials to come before us. I was asked by the minister when I needed his officials. I discussed the matter with the committee, and the committee thought we would finish the Canadian National Railways today and that we would be able to hear the Trans-Canada Air Lines officials tomorrow. One of the officials had to come from Winnipeg and the necessary arrangements were made. I hope I have not tried to rush things. I have taken the committee into my confidence as I knew the situation, but I must have some assistance at times. We have the rest of this morning and this afternoon to discuss the auditor's report and surely that cannot amount to crowding.

Mr. NICHOLSON: I am not complaining but I think, as a matter of policy, when parliament expects us to review the business of the railway, that government members should not try to rush these matters through.

The WITNESS:

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir:—Under authority of Section 13 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 12, 1947, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament. In the aforementioned Section 13 of the 1936 Act there is a specific direction to the Auditors that "Their annual report shall call attention to any matters which in their opinion require consideration or remedial action."

Audit Certificate

Our Audit Certificate, appended to the 1947 accounts published by the Railway, sets forth the two specific qualifications we make to the Financial Accounts, i.e.,

(*a*) The acceptance by us of the total amount of the Investments in Fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways, and

(*b*) In respect of the Canadian Lines, the application by the Railway of depreciation accounting for Equipment only from the 1st January, 1940, and the continuance of retirement accounting for Fixed Properties.

The reference to Contingent Liabilities in the body of the Consolidated Balance Sheet is supported by a schedule setting out, *inter alia*, the principal qualifying factors in the capitalization of Pensions.

Summarized Outline of this Report

Supplementing our Audit Certificate appended to the 1947 accounts published by the Railway, we submit for the information and consideration of Parliament our comments under the following captions:—

Consolidated Income Account

Deficit for Year 1947

The Deficit amounting to $15,885,000 for the year 1947 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Fixed Charges and Depreciation	$48,433,000
Less: Fixed Charges	45,926,000
Surplus before Depreciation	$ 2,507,000
Less: Depreciation of System Equipment and United States Lines Depreciable Fixed Properties	18,392,000
Deficit	$15,885,000

Wage and Material Costs vis-à-vis Transportation Rates and Traffic Volume

The general expenses of operation consist largely of wages and materials which continued to increase during 1947 to a new high level, without compensatory return in 1947 through increased transportation rates for domestic traffic on the Canadian Lines similar to those granted by the Interstate Commerce Commission to the United States railways. As a consequence, the operations resulted in a Deficit for the year notwithstanding that the over-all traffic volume and related Operating Revenues of $438,198,000 were the greatest in the peace-time history of the System. Failing a realistic recognition on the part of all interests involved and some long-term levelling out of this form of maladjustment, we suggest to Parliament that the problem could develop over the years into one of concern to the Dominion, and more particularly so, should any serious recession from the present level take place in traffic volume. Our reference here is to the Dominion solely in its capacity as owner of the System—not to its inherent position in the broad economics of Canadian transportation rates vis-à-vis Canadian domestic and export trade.

At the date of this report no decision has been made public by the Board of Transport Commissioners for Canada in connection with the recent hearings on freight rates for domestic traffic on the Canadian Lines. To whatever degree the Canadian Railways' request for increased domestic rates is granted to supplement the previously increased international and special import-export

rates, it will be of aid to the National System, but the extent to which such aid will provide any long-term solution of the System's economic problems will depend not only on the proportions of the domestic award, but also on the future trends of the System's basic operating costs, fixed charges and traffic volume.

Fixed Charges

Fixed Charges through the Income Account, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover Interest on Funded Debt held by the Public, Interest on Loans from the Government, Interest on Unfunded Debt, Amortization of Discount on Funded Debt and Rent for Leased Roads and Equipment. The ratio of Fixed Charges to Operating Revenues was 10·5 per cent. We would again call to the attention of Parliament this disproportionate ratio of Fixed Charges as borne by the National System in comparison with other major railways in North America.

Interest on Funded Debt averaged 4·10 per cent and Interest on Loans from the Dominion Government 2·90 per cent or a composite rate of 3·45 per cent at the year-end.

Depreciation and Maintenance

In respect of "depreciable" Fixed Properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—depreciation provision in the composite rate of approximately $1\frac{2}{5}$ per cent has been made during the year for the United States Lines of the System in accordance with the 1943 Order whereas the Canadian Lines take up through Maintenance of Way and Structures accounts the loss of service value at the time of replacement or retirement.

Mr. JACKMAN: May I interrupt just there. What was the amount, at $1\frac{2}{5}$ per cent, for depreciation on this item on United States lines, and what was the amount of depreciation through retirement on the gross amount of the Canadian profits?

Mr. MATTHEWS: Your first question was, how much was charged in depreciation on the National Lines?

Mr. JACKMAN: What was the value of the property in the United States that would be depreciable fixed properties; and, second, what was the amount of depreciation at that rate you give—150 per cent?

Mr. MATTHEWS: Your first question, Mr. Jackman, as to the property value subject to depreciation on the United States lines is $67,739,000; and the amount accrued was $952,000, for an average of $1\frac{2}{5}$ per cent.

Mr. JACKMAN: And in Canada we have depreciable property of, how much?

Mr. MATTHEWS: I could not tell you that, Mr. Jackman. There has never been a valuation inventory taken. You see, in the United States under the Interstate Commerce Commission regulations the property has to be valued for depreciation purposes. We have no such figure for the Canadian property.

Mr. JACKMAN: Is there any breakdown of office accounts for the Canadian National system setting forth the book value of the depreciable fixed properties?

Mr. MATTHEWS: Is there—what?

Mr. JACKMAN: Of the fixed properties. I think that is what you call it. On the ones which correspond to the depreciable fixed properties under the I.C.C. regulations.

Mr. MATTHEWS: There have been no valuation figures prepared for the Canadian company similar to those in the United States, Mr. Jackman. They are not available.

Mr. JACKMAN: Could we not make an estimate? Let us say 10 per cent of the system operates in the United States and 90 per cent of it is Canadian. Would it be a fair assumption that the depreciable property in Canada would be—first of all, what is the proportionate amount in the United States and in Canada?

Mr. MATTHEWS: Well, that would be a guess, the amount of the structure in Canada as compared with the Grand Trunk Western and the Central Vermont; and that would not necessarily be comparable in Canada because of construction and other factors which might mean quite a difference. But I suppose you might make an estimate for your own purposes if you care to, taking if you like the mileage in the United States, and if you want to use that as a basis of comparison I suppose one might do so but we would not care to make an estimate of what the amount is, Mr. Jackman. But you could take the trackage of the United States lines in relation to the system here.

Mr. JACKMAN: What is the relationship between the trackage in the States and in Canada?

Mr. MATTHEWS: The total mileage of the Canadian National Railways is 23,473; of that mileage 21,687 miles is in Canada and 1,786 in the United States. That would be about 8 per cent.

Mr. JACKMAN: That might not be an unfair figure to take for depreciable properties in Canada as a basis for a broad general estimate.

Mr. MATTHEWS: You have a different situation in Canada, but on a mileage basis you might do it that way.

Mr. JACKMAN: How much is set aside as equivalent for depreciation in Canada on fixed properties through the retirement policy of depreciation?

Mr. MATTHEWS: You mean, how much was charged to the operating account for the retirement of properties on the National system?

Mr. JACKMAN: Yes. I am trying to get the corresponding figure for the Canadian lines as against the $952,000, which had to be set up under the I.C.C. regulations in the States.

Mr. MATTHEWS: Well, the amount of retirement charged to maintenance of way and structures in 1947, was $881,509. That is principally the Canadian lines. That covers both retirements and replacements, and that would be described largely as depreciable fixed properties.

Mr. JACKMAN: Would that not be the method by which we cover depreciation on our road properties in Canada as against depreciation accounting?

Mr. MATTHEWS: Yes. There is no depreciation accounting for fixed properties in Canada.

Mr. JACKMAN: As auditor of the system, Mr. Matthews, what do you think of the I.C.C. regulations requiring $952,000 to be set up for deprecation of the properties which are set out on the books at $57,000,000, in the States, and only $881,000 being set up for deprecation through this retirement and replacement policy against properties which perhaps have a value in the neighbourhood of $7000,000,000 in Canada?

Mr. MATTHEWS: Mr. Jackman, I think you heard the expression of opinion last year. You will recall that there is a difference of viewpoint on this between the railway management and ourselves. We have stated our opinions in this matter since we were first appointed auditors under the C.N. Act; and you had an opportunity last year of hearing the railway's views. I think so far as we are concerned we have nothing to add to what we have already said; excepting that with the passing of another year we feel that we have to consider the fact that we are living in fast changing days. On the Canadian National Railways system account I would like to state again as I have stated on other occasions

and made clear in our 1946 report, all properties are kept at a high degree of efficiency, but there is a point at which we as auditors of this property on reporting to parliament feel that we have to look at the thing in a light broader than that. In these days there are three fundamental interests in all enterprises; you have the owner, you have labour and you have the customer. Each one with an individual interest to serve. There was a time when the owners of businesses took some pride in talking about their profits. Today there is a tendency on the part of the management, especially on account of inflationary conditions of one kind or another, to offer apologies for profits. You will find any number of these companies in the States today attempting to explain why their profits are so large. You will see them taking their profits over a year that may have been in some cases double the previous year; you find that they take an apologetic attitude, and they will try to explain to their stockholders that based on the volume of 1939, or some other year they are making no more profit on turnover than they did then. So we turn then to labour. Labour these days first of all are concerned with the factors that they find in the family budget. They have a cost of living. They in turn look at these profits. Management also has in mind that labour will be kept informed as to what these conditions are. The customer, he gets his bill for merchandise or for transportation or anything else and he looks at it from his point of view.

All this leads us to the conclusion in this day that it is important for all enterprise; and the Canadian National Railways we think is no exception simply because it is government owned; that all costs should be set out in their annual statement for the benefit not only of their stockholders but many other interests who read this. So we feel that on the matter of depreciation today, in view of the fact that replacement costs are rising so rapidly—there again if anyone cares to read the account for the large companies in the United States, they are telling their stockholders in some cases of the fact that they are working under an inflated dollar on the one side and they are only charging out the use of the facilities on the basis of its cost, which in many cases is not more than half of what it would cost them to replace. The result of that has been this; take the steel companies, for instance, they have gone so far as to state in their annual report that in addition to depreciation they had made appropriations out of income to supplement depreciation charges to offset the inflated dollar that they are taking in their sales. And for that reason we feel, together with the fact that in the transportation field there is a need from time to time to appeal to government authorities for adjustment of freight rates and other requirements of revenue, there is a continuing need to negotiate with labour; and our feeling is that the costs, all costs on operating any property should be set out in the accounts of the companies today with greater need than ever before because of those factors to which I have referred. Depreciation is one of them. In the railway field as in other heavy industry fields the matter of cost of the use of your facilities per dollar of revenue is considerable, and for that reason it is of greater importance that the account should state with the fullest clarity the costs that are involved in the performance of the service for any given year. And our view is that as equipment has already depreciated, so also are there equally good arguments for some form of recognition of cost for the use of the large units of fixed properties in any enterprise. For that reason we again recommend to parliament on our report that the matter of depreciation of fixed properties be given further consideration.

Mr. JACKMAN: Am I clear in understanding then, Mr. Matthews, that in place of depreciation reserves which are not being charged against operations that under the accounting methods of the National system in Canada the equivalent of depreciation is a loss of service value when certain ways and structures are replaced; and then the result of that would be setting up as a

reserve certain sums. Now, Mr. Chairman, I wonder if somebody would answer this question. If the railway were not practically forced to use all of its available equipment of ways and structure because of the highest volume of traffic in its history would there not have been more retirements and replacements, in which place the reserves instead of being $881,000, would be a very substantially greater amount; and that is brought about by conditions of operation rather than by election on the part of the management itself. If we were in more normal times would there not be a great deal more charged to replacements and retirements?

Mr. MATTHEWS: It naturally follows, Mr. Jackman, that when operations are close to capacity that all the railways' facilities will be maintained as against the condition where there was not such a full capacity; and I think the natural result would be, looking back over the years, that there would have been higher retirements in any given year during which time the traffic was at a high level such as we see today.

Mr. JACKMAN: What deduction should parliament take from the fact that out of depreciable properties in the states of $67,000,000 counting a reserve of $9,250,000 which has been set up under I.C.C.—and $67,000,000 only represents less than 10 per cent of the total properties of the system—against the other 90 per cent only $881,000 has been set up through this policy of retirements and renewals, and the 90 per cent is a lesser amount set up in Canada than is the 10 per cent; what deduction must parliament draw from that?

Mr. MATTHEWS: Just the fact that depreciation charges are not made on the Canadian lines.

Mr. JACKMAN: Or any other charge which would in the aggregate amount to anything near a corresponding charge to the 1⅝ per cent depreciation charge under the I.C.C. rules?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: In other words, against the $67,000,000 in the states you have depreciated $952,000 and under our system in Canada against properties equal to 90 per cent or more, we have set up only $881,000 as depreciation through the retirements and renewals account; that is the fact, is it not?

Mr. MATTHEWS: It is not set up as depreciation; it is a factual write-out of a property that has been retired without the loss of the service at all.

Mr. JACKMAN: It is fair to say that the retirements and renewals principal is simply in lieu of depreciation; there is no other account of depreciation on the ways and structures; is not that so?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: May I ask a question with regard to uniform accounting which we have under the I.C.C.? Some years ago, when we went into this matter fully, two reasons were given either by the auditors or the management for not desiring to adapt I.C.C. accounting in Canada. Those two reasons were, first of all, that the American roads had adopted it partly because of their large wartime earnings; they wanted to be able to charge up as much as possible; and flowing from that was the fact that the experience of the states with depreciation accounting on ways and structures was fairly new, and it was desirable to see how it worked out before we gave further consideration to it in Canada. The second reason was that owing to the shortage of clerical help during wartime it was not desirable to have to channel a lot of the staff of the railway accounting system into setting up a property account which would be subject to depreciation?

Mr. MATTHEWS: Yes, we said that several years ago.

Mr. Jackman: May I ask you what is your feeling in regard to the experience in the states during the passage of the years? Has the system worked out satisfactorily there?

Mr. Matthews: The Interstate Commerce Commission have given no intention whatever that they are going to abandon the rule that they set in 1943. In 1928 the Interstate Commerce Commission set up a set of regulations for depreciation that were models of perfection in theory, but it took them from 1928 to 1943 before they finally made them effective. Now, that is five years; and, as I say, we know that no indication has been given by the Interstate Commerce Commission that they intend to revoke the decision they made after at least fifteen years of study and negotiations between the American railroads.

I have heard it said many times that the American railroads opposed depreciation accounting on fixed properties because of their earnings position and that they were agreeable to it from a tax point of view by 1943. Be that as it may, the fact still remains that there is a depletion of life in a fixed property or any other enterprise. You will hear it sometimes said that you fix a rate of 2 per cent and after forty years the building may be in as good a condition as it was when you built it; but there does come a time when because of the fact that the structure—any kind of structure—has worn out, it may be of no further value economically. We see that in many instances. Take the case of the C.P.R. hotel in Vancouver as an example. That hotel would stand for a hundred years, but the fact of the matter is that it has ceased to be a hotel as was originally intended. So the fact of obsolescence is a very important thing in this question of depreciation. In fact, the I.C.C. in their reference to depreciation makes reference to obsolescence.

Mr. Jackman: Do they use that obsolescence as a component of their factor of depreciation in their system?

Mr. Matthews: In effect; because in making reference to the basis of depreciation they set out the elements of wear and tear of other elements, including obsolescence. This factor of loss-of-service value is not related only to wearing out, and in these changing days obsolescence is becoming more and more a factor that an enterprise must take into account in looking at annual costs of operation. I think that it should be said, however, that the section of fixed properties that is known as track structure is handled on a very conservative basis. The I.C.C. do not provide depreciation as such for ties, rails and other track material and ballast; but what they do require—and the Canadian lines follow that—is that when a line of track is taken up, say it is 100-pound rail, they relay 100-pound rail. The charge to operation is added to its current cost. So you see to the extent of track structure replacement it will take care of this very well. But it is in respect of the so-called depreciable fixed properties as defined by the I.C.C. that we have consistently kept before parliament the need to give this matter consideration; and we are more persuaded of that today than we have ever been before because of change in conditions. We never can forget that whilst it may be said that the Canadian National Railway accounts are never taken as a basis, the fact remains that if we are going to talk about costs we should include everything; and certainly the use of the fixed properties, apart from track structure, is a facility that in one form or another is involved in the cost.

The Chairman: Gentlemen, it is 1 o'clock, we will adjourn until 4 o'clock.

AFTERNOON SESSION

April 21, 1948.

The committee resumed at 4.00 p.m.

The Chairman: Mr. Matthews was answering questions of Mr. Jackman.

Mr. McLure: Before we proceed I should like to make one observation. I should like to compliment Mr. Thompson of the Publicity and Advertising Department on the wonderful work he has done in preparing the report.

Mr. Matthews:

> In respect of track structure, i.e. ties, rails, other track material and ballast and which are defined in the 1943 Order of the Interstate Commerce Commission as "non-depreciable," the loss of service value is taken up through Maintenance of Way and Structures accounts at the time of replacement on both the Canadian and United States Lines of the System.
>
> Depreciation provision has been made through Maintenance of Equipment accounts for the Equipment of both the Canadian and United States Lines of the System, the $3\frac{1}{3}\%$ annual depreciation rate used for Rail Equipment of the Canadian Lines being comparable with the latest available composite of the rates used by the Class I Railroads in the United States under the authority of the Interstate Commerce Commission.

Mr. Jackman: Could we have there the amount of depreciation which was assigned against equipment over United States lines?

Mr. Matthews: For the year?

Mr. Jackman: Yes.

Mr. Matthews: I may have that. I will see.

Mr. Jackman: Perhaps Mr. Cooper has it handy.

Mr. Matthews: I may have it here.

Mr. Lafontaine: Could we not have the report read and have questions afterwards?

The Chairman: What do you think about that, gentlemen?

Mr. Jackman: I think we can make pretty good progress. We may have to revert to it. That is the only suggestion I have.

The Chairman: You think it is better to do it as you go along?

Mr. Jackman: I think we will make more progress.

Mr. Hazen: Are we going to ask questions as we go along or read the report and then ask questions afterwards, or are we going to be allowed to ask questions both as we go along and after the report is read?

The Chairman: When we started out I thought the report was going to be read and then questions afterwards, but Mr. Jackman stepped in when depreciation and maintenance came along. I did not stop him. If you would rather have Mr. Matthews read the whole report before questions are asked we can do so.

Mr. Lafontaine: That would be the best way.

The Chairman: Very well. Go ahead, Mr. Matthews. We will clean it up and ask questions afterwards.

Mr. Jackman: May I suggest it is a long report, and there may be certain parts of it that will only have to be referred to by headings later on. I think this present paragraph should be finished. Unless there is some real reason, unless it is inconvenient to other members I would put in a strong plea to continue asking questions as we go along.

The CHAIRMAN: What about reading it all? Do you think it is necessary to read it all?

Mr. JACKMAN: I think we can eliminate a lot of it shortly.

The CHAIRMAN: Perhaps we can eliminate some of it that is not very important as we go long. Is that all right? Very well, we will try to eliminate some as we go along and ask questions as we go along.

Mr. MATTHEWS: You wanted a breakdown, Mr. Jackman. I will get that for you.

> Maintenance of Equipment accounts reflect the utilization during the year 1947 of $8,000,000 from the Deferred Maintenance Reserve. No similar utilization of the Reserve was made in respect of Maintenance of Way and Structures.

Mr. JACKMAN: May I ask is the $8,000,000 in addition to the regular $3\frac{1}{3}$ per cent depreciation on the equipment on Canadian lines, or did the $8,000,000 constitute a part of the $3\frac{1}{3}$ per cent?

Mr. MATTHEWS: Well, it is on the other side of the account. The $8,000,000 is a utilization of the reserve and a credit back to the maintenance accounts. The depreciation of $8,000,000 is a charge. As to this $8,000,000, if you refer to your maintenance of equipment account on page 16 of the railways report, you will see the last item there, deferred maintenance equipment in italics.

Mr. JACKMAN: Yes, $25,000,000.

Mr. MATTHEWS: With the utilization of that $8,000,000 it leaves $25,000,000 still in the reserve.

Mr. JACKMAN: What I am getting at is were the operations for the last year charged the $3\frac{1}{3}$ per cent, and in addition $8,000,000 was drawn down from the deferred maintenance account? Is that right?

Mr. MATTHEWS: It is not in addition.

Mr. JACKMAN: I merely wanted to know whether or not there was an overstatement of earnings last year because of the deferred maintenance account which had been set up in prior years. There was a full $3\frac{1}{3}$ per cent charged to operating account last year?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: That is all I want to know.

Mr. MATTHEWS: The equipment charges are very complete so far as depreciation is concerned.

> In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the Maintenance accounts as a whole include the cost of "day-to-day" or "running" repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.
>
> In the matter of Maintenance policy we have received certificates from the responsible operating and executive officers to the effect that, subject to the utilization of the unexpended balance of $25,000,000 in the Deferred Maintenance Reserve, the Fixed Properties and Equipment have been maintained in a proper state of repair and in an efficient operating condition during the year.
>
> With respect to Physical Retirements of Fixed Properties and Equipment, we have been furnished with certificates from the responsible operating and executive officers to the effect that, insofar as traffic demands would permit, such Physical Retirements as should have been made

during the year, as a result of wear and tear and obsolescence, have been made and that notification of all such Retirements has been given to the Accounting Department.

Future Replacement Costs of Railway Facilities

The operating charges in 1947 for depreciation and those for loss of service value taken up at the time of replacement or retirement, as previously referred to herein, are (apart from track structure replacements) based on the original book cost of the facilities. This basis of costing is in accordance with the regulations of the Interstate Commerce Commission. In view, however, of the substantial increase during recent years in the level of replacement costs, we would suggest the consideration of Parliament to the possible effect of future replacements on the System's future operating charges covering the use of its numerous facilities. The problem, of course, is not peculiar to the National System but one of common application to railways and "heavy" industries generally in view of their substantial ratio of "depreciating" or "wasting" capital investment either per annual revenue or expense dollar.

Mr. JACKMAN: May I ask if the auditors have any relationship with the board of directors at all or is it all with the management, and primarily with parliament, of course. Do you discuss these matters at board meetings?

Mr. MATTHEWS: With the board?

Mr. JACKMAN: Yes.

Mr. MATTHEWS: No. We have never requested that.

Contingencies of Railway Obsolescence

Whilst Obsolescence has not been a particular problem of railways generally, at least in an accounting sense, in the past decade because of the unprecedented demand for transportation services of all kinds it might, nevertheless, be well for Parliament to bear in mind the nature, fundamental causes and contingencies of railway obsolescence upon which we offer the following explanatory comments:—

(*a*) Obsolescence may be described as being that element of capital loss due to causes other than predictable loss of service value from wear and tear and the action of the elements during ordinary service life. Under these conditions there is a resultant falling into disuse of a portion of railway facilities—particularly Equipment in the older groups.

(*b*) Obsolescence in the past has been mainly attributable to three causes, i.e.:

(i) The creation in abnormal proportions of facilities to meet public demands or competition for transportation services during periods of early national development, trade and financial booms, wars, etc., followed in due course by protracted periods of economic recession and later by what may be regarded as merely normal times;

(ii) Changes in public demand for specific types of transportation services—other than those furnished by railways, and

(iii) Improvements in the types of railway facilities in the interests of public safety or to meet competitive labour and material costs of operation.

(*c*) The contingencies of obsolescence, in our opinion, will be largely influenced by:

(i) The availability of new capital moneys and the extent to which railways can carry the burden of additional fixed charges;

(ii) The extent to which bus, truck, inland waterways and air lines operations are expanded and regulated;
(iii) The extent to which operations are pooled by railways generally—through statutory or voluntary co-operative measures;
(iv) The extent to which the per capita ownership of automobiles is increased, and
(v) The increase of population, over-all trends of international and domestic economic conditions, etc.

Where a policy of liberal depreciation reserves for both "depreciable" Fixed Properties and Equipment has been in effect for a long period, the impact of obsolescence would not be so pronounced as where a policy of retirement accounting has been in effect for any considerable portion of the service life of the facilities.

Mr. Jackman: In the last sentence in paragraph (*a*) you say:—

> Under these conditions there is a resultant falling into disuse of a portion of railway facilities—particularly equipment in the older groups.

Is there anything there you would care to be more specific about because it is just a general statement and means nothing to the members.

Mr. Matthews: Of course, that particular situation as you know, developed in the early 30's with all railways. Even the United States railroads which had adopted depreciation accounting several years prior found themselves faced with very low traffic volume and the necessity to retire quite a proportion of equipment. In the United States even with depreciation accounting there was a very substantial amount necessary to be written off and charged against surplus of the railroads. In the early 30's the revenues of the Canadian National fell below $150,000,000, as you well remember. There was a considerable retirement of equipment in 1935, and its relationship to the subnormal level of revenues of that day hardly needs any explanation. So far as the future is concerned it is anybody's guess as to what the trend of traffic in this country is going to be over the next five years or so. The factors that we feel will have an effect on that are set out, and it depends, too, on how obsolescence takes place. If obsolescence takes place as the result of development of a new type of facilities that reduces the cost of operation the loss of obsolescence is not serious, but if it is due to a serious decline in traffic volume, as has happened, we feel that depreciation accounting is at least a measure of protection against that possibility.

Mr. Jackman: This obsolescence you have reference to is mainly what may come about in the future rather than anything that is observable at the moment.

Mr. Matthews: I do not think anybody can say today. If one reads the forecasts of the past two years, and realizes how far away the majority of the experts were two years ago on what was going to take place in 1947 one must realize that in an inflationary period such as this it is nothing more than a guess. I have not any means of knowing what the trend of economic conditions will be in this country in the next five years. That depends on so many things outside of the control of any one country today. We are living in a world where the affairs of one continent have a very definite effect on the affairs of another continent. In other words, the day of insular living is past, so that if anyone can tell us what the situation in western Europe, for instance, will be in the next five years we might have a fair idea of what we may look forward to. At the moment I do not think that we or anyone else can look into the future beyond that.

Mr. Nicholson: I suppose the construction of a trans-Canada all-weather highway might affect the situation.

Mr. MATTHEWS: Several factors.

Mr. HAZEN: Has the policy of a liberal depreciation reserve been in effect for a long time on this railway? I am referring to the last paragraph. I do not understand it.

Mr. MATTHEWS: On the United States lines, of course, they have followed depreciation accounting for a long period of time because they come under the authority of Interstate Commerce Commission, but on the Canadian lines depreciation accounting was adopted for equipment in 1940, so that you have eight years of accrued depreciation of equipment, but nothing in respect to fixed properties of the system.

Insurance Premium Charges and Fund Operations

> Insurance premium charges are not made through Operating Expenses covering the bulk of the risks carried directly on System account in the Insurance Fund. The profit on the overall operations of the Fund for 1947 is credited to Miscellaneous Income whilst the related amount of Cash is transferred to the current Cash Account of the Railway. The present general level of the Fund and corresponding Reserve has been maintained for several years. The increased level of replacement costs in recent years with its possible effect on the amount of the risk coverage by the Fund is a matter to which the Board of Directors of the System has given some consideration.

Mr. JACKMAN: If my recollection serves me correctly the insurance fund was considered to be fully, if not more than adequate for the risk involved? Is that not the situation?

Mr. VAUGHAN: That is correct.

Mr. MATTHEWS: Yes.

Mr. JACKMAN: So that the earnings on the fund have gone into your general income statement rather than a credit to the fund itself?

Mr. VAUGHAN: That is so.

Mr. JACKMAN: Have the directors decided anything in regard to the extra cost that applies to new equipment now?

Mr. VAUGHAN: That matter has been taken into account and it has been decided the $12,000,000 which we have set up in reserve is adequate to meet the situation.

Mr. JACKMAN: For the year 1948 you feel you should take the earnings of the fund and add it to it and transfer that amount?

Mr. VAUGHAN: No, we think if we keep that fund at a level of $12,000,000 it is going to be sufficient for our requirements.

Mr. MATTHEWS:

> *Pension Charges vis-à-vis Actuarial Estimates*
>
> Pension charges through Operating Expenses cover the Railway's portion of payments to retired employees under all C.N.R. Plans and the increase in the Pension Contract Reserve for the Railway's portion of the estimated capital amount of all Pension Contracts in force at the year-end under the 1935 Plan. Another way of describing these charges would be to say that they relate to retired employees on pension in 1947 under all C.N.R. Plans but not to accruing pensions for employees presently in service.
>
> From time to time in past years the question has been raised at the Sessions of the Standing Railway Committee of Parliament as to the sufficiency of the annual Pension charges on the foregoing accounting

basis in relation to an actuarial estimate of currently accruing pensions on the System. This question involves the consideration, *inter alia,* of the potential factors of employee compensation and contributions, investment income, life expectancy and, as far as practicable, long term employment turnover.

The following explanatory comments in respect of the year 1947, therefore, might be of interest at this time:—

In respect of Canadian Lines:

(*a*) An approximate actuarial computation made by the responsible Railway officials indicates that the Canadian Lines portion of the Pension charges for the year 1947 exceeds by something approximating $3,700,000 a tentative actuarial estimate of currently accruing Pensions for employees presently in service. It is anticipated that with the passing of time, under the present basis of accounting, this excess will progressively decline and that eventually the trend will reverse itself.

(*b*) The aforementioned estimate of currently accruing Pensions theoretically assumes that as of the 1st January, 1947 all existing Pension payments and all past accruals for employees in service on the Canadian Lines were capitalized through an overall Pension Reserve.

In respect of United States Lines:

(*a*) On the United States Lines of the System the major portion of currently accruing Pensions is taken up in the form of Taxes paid to the Federal Government under the Railroad Retirement Act which accounting, through the Income Account, is in accordance with the regulations of the Interstate Commerce Commission.

(*b*) It may be of further interest to note that, apart from the foregoing Pension charges provided for under the Railroad Retirement Act, the amended Interstate Commerce Commission Regulations effective as of the 1st January, 1948, provide as follows:—

A carrier may account for pensions on an accrual basis provided it has established a retirement plan whereby it definitely agrees to pay pensions to its retired employees. If the carrier elects to adopt the accrual plan, this account (Pensions and Gratuities) shall be charged and account 769 (Pension and Welfare Reserve) credited each month with amounts representing benefits currently accruing under the plan and borne by the carrier. Contributions by employees shall be credited direct to account 769. Pension payments shall be charged to account 769. Before adopting the accrual plan for pensions, the carrier shall inform the Commission of the details of its pension plan. No charges shall be made to this account in anticipation of discretionary pension payments in the future.

Perhaps I might explain on that one particular point that previous to the adoption of this regulation the Inter-State Commerce Commission required that accruing pensions for those borne by any American carrier, over and above that covered by the payment through taxes, had to be a funded reserve, that is, they had to put the money up. The result was some railroads of the United States with sufficient funds could set up a reserve for accruing pensions while other railroads without the same means were unable so to do. So that this new regulation provides that all railroads in the United States from the 1st of January, 1948, can accrue their currently accruing pensions without the necessity of putting up an equivalent amount of cash.

Mr. LOCKHART: Perhaps the witness can answer this question, or perhaps Mr. Vaughan. In the light of the very materially increasing wage costs has there been any consideration as to increasing the pension amount?

Mr. VAUGHAN: No, sir. We have not changed our pension scheme. We feel that outside of the minimum pensions our pensions are adequate. The additional cost of changing our pension scheme would amount to so much money we feel we cannot afford it.

Mr. LOCKHART: Are pensions in the lower brackets considered satisfactory?

Mr. VAUGHAN: Mr. Cooper gave some figures the other day as to how a man can build his pension up. If a man contributes he can get an adequate pension if he has a reasonable length of service. If he does not contribute he does not get very much of a pension.

Mr. LOCKHART: And there is no consideration being given to any change in the system?

Mr. VAUGHAN: No, sir; not at the present time.

Mr. FULTON: Would the witness clarify paragraphs (a) and (b) with respect to the Canadian lines? I would like to be quite clear whether my impression is correct. I take it that in general paragraph (a) means that at the present time there is a pension fund on hand which exceeds that $3,700,000 of anticipated claims by way of pension?

Mr. MATTHEWS: No. This is an endeavour to answer a question that has been raised heretofore as to whether the annual amount that is being charged to operating expenses is greater or lesser than the accruing pensions if they were on actuarial basis. In 1947, due to the capitalization of the pension contracts at the time, a man retired on pension under the 1935 plan. This had the effect of running the charges up very substantially in the operating expenses for pensions, and this indicates to the committee that for the year 1947 the operating expenses for pensions are very little, so that it would be some little time yet before an accrual basis would exceed the actual charges, due to the fact of charging to operating expenses each year the increase in the capital value of the contract under the 1935 plan issued to retired employees under the plan.

Mr. FULTON: You go on to say, "... under the present basis of accounting, this excess would progressively decline and that eventually the trend will reverse itself." By that I take it you mean that the amount charged to operating expenses for pensions will be less than the capitalized value of the pensions?

Mr. MATTHEWS: It means that eventually if the railways were to continue their present basis of accounting for pensions that the actual accruing pensions on the Canadian lines would be higher than the amounts that would be charged on the basis of present pension payments with the capitalization of the contracts.

Mr. FULTON: You say, higher than the amounts charged; higher than the amount charged to what?

Mr. MATTHEWS: Operating expenses.

Mr. FULTON: Where would the deficit be met from?

Mr. MATTHEWS: It would not be met at all. At that time then it would mean that the operating charge shown by the railways would not be sufficient to meet the accruing cost of pensions; in other words, there would be a sense in which then the operating expenses would not be sufficient an amount to actually reflect the cost of pensions. So for 1947 we can see that the charge to pensions is in excess of what it would be on an accrual basis.

Mr. JACKMAN: If all the accruing pensions had a reserve sufficient to support them set up now the company could have charged $3,700,000 less for operating expenses for the year 1947?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: That was a heavy charge on operations. That is the understanding. It is a heavy charge. It is $3,700,000 more than would have been charged had there been set up a fund to take care of the accruing pensions in the past.

Mr. MATTHEWS: Of course, on the other side, Mr. Jackman, when we reach that point—this has to do with the operating expense side—of course the setting up of reserves for capital values would constitute a very substantial amount, as you know.

Mr. JACKMAN: I realize that. The railway has not been in a position to set up enough money to capitalize the accruing and not matured pensions.

Mr. MATTHEWS: I think that the capitalization of pensions, when we get there, is a matter really of the policy of the owner; because what would be necessary would be for the owner to give its consent to the transfer from proprietor's equity to a reserve for the actuarial capital value of the pensions.

Mr. JACKMAN: I only want to be clear as to what the situation is today.

Mr. MATTHEWS: My point is that it is not a question of the railway being able to afford; it is a question of whether or not when you come to the capitalization feature of pensions—whether the proprietor would be willing to authorize the railway to establish a capital reserve out of the present proprietor's equity. The question of affording is hardly the question.

Mr. FULTON: Do we take it from this that there was no pension fund built up?

Mr. MATTHEWS: Oh, yes, there is, definitely.

Mr. FULTON: The pensions have been charged to operating expenses.

Mr. MATTHEWS: You see in the balance sheet that the railway has gone a long way, and as I said last year, the Canadian National Railways, are far ahead of the average company in the manner in which they have established the capitalization of reserves thus far; if you will look at the balance sheet on page 12 you will see that they have established a pension fund and it is made up of dominion government and system securities of $40,915,000.

Mr. FULTON: What is the charge to operating expenses referred to?

Mr. MATTHEWS: The charge to operating expenses was something over $10,000,000, whereas the accruing pensions were $6,000,000.

Mr. FULTON: The point that puzzles me is, if there is a pension fund to meet pension claims what purpose is there to the charge made to operating expenses; what does the charge cover?

Mr. MATTHEWS: Under the present basis, as I have explained, the charges to operating expenses represent two things: first, the pension payments made in cash; secondly, under the 1935 plan when a man reaches retirement age he is given a contract which undertakes to pay him so long as he lives a definite amount per month. Now, the railways have established a policy that we think is very sound, and they have taken the capital value of the actual pension, taken the man's age into account, and have estimated the capital value of that contract. Under that plan the employees make contributions and at that time the employee's contribution is turned back into the railway and that together with the earning of the fund is applied in reduction of the increase of the capital value and the net amount only is charged to operating expenses. So you see the charge to operating expenses is a combination of the cash paid plus the capital value of the pension contracts issued to the retired employees.

Mr. FULTON: It is as though it were paid into a general fund, operating revenues, and from operating revenues paid back to the pension fund?

Mr. MATTHEWS: That is right. The capital value of the pension contracts under the 1935 plan has been completely set up in a reserve and funded and that is the $40,000,000 of which we speak.

Mr. LOCKHART: There was one point I did not ask Mr. Vaughan. Has there been any complaint from the lower bracket contributing employees that their basis of pension in this lower bracket is not sufficient—I refer to the labouring type of man?

Mr. VAUGHAN: Yes, there has. They feel that our minimum pension should be increased.

Mr. LOCKHART: Because of the present cost of living and so on?

Mr. VAUGHAN: Yes, our organizations have advocated on different occasions that the minimum pension should be increased.

Mr. LOCKHART: It is under consideration?

Mr. VAUGHAN: It is not under consideration because we have said we could not afford it.

Mr. LOCKHART: Oh, yes. It is unfortunate.

Mr. MATTHEWS: Mr. Chairman, did I understand at a certain point you were prepared to allow me to put my report in or am I to go on reading it?

The CHAIRMAN: I think there are some paragraphs which you might summarize. Has anyone any questions which he would like to ask as Mr. Matthews goes on?

Mr. MATTHEWS:

Taxes

Tax provisions made through the Income Account relate principally to Dominion Unemployment Insurance; Provincial Taxes in Ontario and Quebec; Municipal Taxes in Canada; United States Federal, State and Municipal Taxes, and Taxes assessed against Hotels in Canada and Separately Operated Properties in both countries. Dominion Sales Taxes are included in the cost of materials.

Consolidated balance sheet

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st. January, 1923, there have been properly applied the substantial reductions authorized by the Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January 1923, the Additions and Betterments less Retirements of the System have been shown on the general basis of cost.

The several special funds including Capital and Other Reserve Funds, Deferred Maintenance Fund, Insurance Fund and Pension Contract Fund, amounting in total to $85,704,000, are composed of investments in the securities of the Dominion Government and the National System, together with Cash and sundry current assets. The year-end market value of the securities held in these special funds in total exceeded the book figure, which for Government securities was based on cost and for System securities on par value. The portion of Insurance Fund holdings of $4,311,000 in System securities, the listings of which were withdrawn from the Exchanges as a result of the war-time United Kingdom Vesting Orders, have been taken at par for the purpose of the foregoing year-end market valuation.

The par value of National System securities held in the foregoing special funds aggregates $10,225,000 of which par value $5,690,000 is covered by the guarantee of the Dominion.

Capital and Other Reserve Funds are maintained for the purpose of recording the holding by Trustees of the unapplied proceeds from Funded Debt issues and the disposal of Mortgaged Properties.

Mr. NICHOLSON: On page 4 in connection with fixed charges it says: "Fixed charges through the income account, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission..." and then on the next page it says, "We would again call to the attention of parliament this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America." I wonder if Mr. Matthews could tell us during how many years this recommendation has been made?

Mr. MATTHEWS: Well, I do not remember that, but the ratio is just about double. It has been just about that for several years and it still is. In 1947, if you will refer to the C.P.R. report, for instance, you will find that for every dollar of revenue their fixed charges are five cents and the proportion runs about the same on class 1 railroads in the United States. In other words, the equity capital in the Canadian National Railways has never been brought into balance and I think that on that score there has been some misunderstanding about what the Capital Revision Act was supposed to do. If you will refer to the statement made by the minister in 1937 when he brought down that Act he made it very clear that it was not in any sense an attempt to adjust the overall fixed charges of the Canadian National Railways; it was only an adjustment of the affairs between the owner of the property and its operations; so that any thought that the Capital Revision Act was to adjust the capital structure fully is not correct. This situation prevailed then and still prevails.

Mr. NICHOLSON: I think you are wise in bringing this matter to the attention of parliament. I cannot recall our recommendation being quite as definite as that before.

Mr. MATTHEWS: Oh, yes.

Mr. NICHOLSON: Have you the wording of the previous declarations?

Mr. MATTHEWS: I have the one for 1946: "We would again call to the attention of parliament this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America."

Mr. NICHOLSON: The words are the same. The recommendations are not being acted on and you are continuing to recommend until something is done?

Mr. MATTHEWS: As you know, the railway management have dealt with the matter also and we have just endeavoured to lend whatever aid we could to something that we believe advisable.

Now, turning to page 8, I have read taxes and two paragraphs of the consolidated balance sheet.

Mr. HAZEN: How do the dominion and provincial municipal taxes that you have to pay in Canada compare with the federal, state and municipal taxes you have to pay the United States in proportion to the capital invested in each country? Are the taxes higher in the United States than they are in Canada?

Mr. MATTHEWS: I think you should direct that question to the management.

Mr. HAZEN: You mentioned provincial taxes in Ontario and Quebec. Do you not pay any provincial tax in any other provinces?

Mr. MATTHEWS: No.

Mr. HAZEN: What is the nature of the provincial tax in Ontario and Quebec?

Mr. MATTHEWS: That was dealt with the other day.

Mr. HAZEN: If it was dealt with we will not go into it again.

Mr. JACKMAN: Do you have to pay an income tax on earnings, assuming that you have earnings; and did you have earnings last year on the American lines on which you paid a corporate income tax to the federal and state authorities?

Mr. COOPER: Yes, the International Bridge Company had a taxable income. The Grand Trunk Western is in one year and out another. The net income of that railway fluctuates, but over the years I think it would be true to say that we pay an income tax to the federal government with respect to the Grand Trunk Western Railway and the International Bridge Company.

Mr. JACKMAN: Inasmuch as your American lines are profitable you pay income tax federally and to the states too?

Mr. COOPER: I do not think we pay any income tax in the states, but definitely we pay federal income tax. In all the states, however, we pay state taxes and generally they are higher than the provincial taxes in Canada.

Mr. HAZEN: You speak of municipal taxes in Canada; does that mean in each of the provinces in Canada?

Mr. MATTHEWS: Oh, yes.

Mr. VAUGHAN: We filed a statement here showing the taxes that we pay in Canada, provincial and municipal; that is on the record.

Mr. MATTHEWS: It is in the consolidated balance sheet.

Mr. JACKMAN: Of Crown properties?

Mr. MATTHEWS: The Canadian government railways. There was no adjustment of the property account.

Mr. JACKMAN: The only thing in Crown properties is I.C.R.

Mr. MATTHEWS: Yes, known as the Canadian government railways.

> Investments in Affiliated Companies, as detailed in the relative schedule, are represented by the Capital Stocks, Bonds and obligations for Advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the Balance Sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1947 Financial Statements issued by the companies representing the larger investments indicate that:—
>
> (*a*) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1947, for investment in Fixed Properties and Equipment and for working capital purposes.
>
> (*b*) Profits aggregated some \$1,652,000 and Losses some \$1,411,000 during the year 1947. Included in the latter total is the loss amounting to \$1,328,000 of the Northern Alberta Railways Company, 50% of which loss has been taken up as an Income charge by the National System, the other 50% being chargeable to the Canadian Pacific Railway. It should be noted that The Toronto Terminals Railway Co. has no Profit and Loss Account in the ordinary sense as the Terminals operations are pooled, under agreement, on a joint facility basis with the Canadian Pacific Railway.

In respect of both the Northern Alberta Railways Company and The Toronto Terminals Railway Company, provision was made for the payment of their 1947 Bond interest.

Dividends were paid during the year by the following companies:—

	Rate per share
Chicago & Western Indiana Railroad Company.......	6%
The Detroit & Toledo Shore Line Railroad Company...	8%
The Public Markets, Limited........................	4%
Vancouver Hotel Company Limited.................. (as dividend equivalent)	100% of 1946 Profit

(c) No major Corporate Deficits exist at the 31st December, 1947. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to Accrued Depreciation of Fixed Properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

Other Investments are comprised partly of "unlisted" investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit, and are valued at or below cost. The balance is represented by securities of the Dominion Government and the National System (Dominion Guaranteed) the year-end market value of which in total exceeded the book figure based respectively on cost and par value.

Temporary Cash Investments are represented by Dominion of Canada securities, the year-end market value of which exceeded the book figure based on cost.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year-end, departmental files and general supporting information but such Accounts have not been additionally verified by direct communication with the individual Debtors and Creditors.

The unpaid balance of the Deficit for the year 1947 has been set up as a current account against the Dominion of Canada pending the appropriation by Parliament of the funds required to cover the 1947 Deficit as a whole.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th September, 1947, and in connection therewith we have received certificates from the responsible officers to the effect:

(a) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and

(b) That the Inventory pricing was laid down cost based on weighted average costs for ties, rails and fuel and latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Ledger values as of the 30th September, 1947, were brought into agreement with the Physical Inventory through a credit to Operating Expenses. It is difficult to say to what extent this operating credit was due to rising prices but it is important to point out that the System's Inventory turnover for 1947 was approximately two and one-half times and that current stores issues are costed on the same basis as the physical

inventory. The Balance Sheet figure for Material and Supplies as at the year-end is, *inter alia,* a reflection of the high level of unit material costs in Railway operation.

Current Assets show a ratio of 1·5 to 1 of Current Liabilities. This compares with a Working Capital ratio of 1·6 to 1 in 1946.

Other Deferred Assets are composed largely of Contracts Receivable in connection with the sale of land in Western Canada and Deferred Accounts Collectable in respect of various matters.

Discount on Funded Debt represents the unamortized portion of the discount and issue expenses incurred at the time the relative securities were sold, which will be written off, in accordance with recognized practice, against Income in pro-rata annual instalments during the remaining life of each issue.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Decline in Market Values of Owned Securities since the 1947 year-end

Whilst the decline in the market values of Government and National System security issues since the year-end is a matter of common knowledge, we consider that we should mention to Parliament the fact that such market decline up to the 5th March, 1948, would have the effect of converting the year-end market excess over book values of the Railway's Owned Securities to one of a minor market deficiency. It should be explained, however, from the viewpoint solely of investment policy, that if the System Securities held in the Railway's Insurance Fund were carried on the books at the actual cost instead of par value there would still remain some over-all market excess in Owned securities of the Railway as of the 5th March, 1948.

Capital Stocks, Liabilities and Reserves

Capital Stocks and Long Term Debt, as detailed in the relative schedules, are shown on the Balance Sheet in respect of Public holdings. Consequently the Balance Sheet figures do not include securities held in the Treasury of the Railway nor those held as collateral mainly by The Canadian National Railways Securities Trust in accordance with the 1937 Capital Revision Act and by the Dominion Government largely as a result of the war-time United Kingdom Vesting Orders.

The Combined Capital Debt, i.e., Long Term Debt and Dominion of Canada Account, was increased by the net amount of $23,370,000 during the year. Of this Capital Debt increase, $18,000,000 was utilized in the acquisition of Trans-Canada Air Lines shares and the balance in partial liquidation of the financial requirements for Net Capital Expenditures.

The several corporate Reserves for Pension Contracts, Insurance, Accrued Depreciation and Defence Projects Amortization, Deferred Maintenance and miscellaneous purposes aggregate $207,827,000 of which $81,765,000 is represented by Special Funds and other specific investments. None of these Reserves, however, are presently in the nature of reversible Appropriations of Surplus nor is the accounting policy of the System such as would result in the creation of "hidden" Reserves.

The Insurance Reserve includes the amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

Accrued Depreciation—United States Lines—applies to Equipment from a date prior to the 1st January, 1923, and to Fixed Properties (excluding track structure) mainly from the 1st January, 1943, in accordance with the regulations of the Interstate Commerce Commission.

Other Deferred Liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the Provinces of Ontario and Quebec, and the balance of the obligation to the State of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other Unadjusted Credits include the estimated proportion of prepaid Revenues on freight in transit; excess of actual Revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Dominion of Canada—Proprietor's Equity

Dominion of Canada—Proprietor's Equity—is set forth in the Balance Sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account as follows:

"2 (*f*) "proprietor's equity" means

(i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and

(ii) the capital investment of His Majesty in the Government Railways."

The following explanatory comments are made with a view to clarifying the Proprietor's Equity Account as set out in the relative schedule:

(*a*) The Capital Stock of the Canadian National Railway Company is shown as at the 1st January, 1947, the initial stated value of which represents the 1918 arbitration value placed on the Canadian Northern Railway Company shares acquired in 1937 by the National Company. The Stock of the National Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System as an operating entity.

(*b*) The Capital Stock of the Canadian National Railways Securities Trust is shown as at the 1st January, 1937, the initial stated value of which represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to Share Capital.

(*c*) The Surplus Earnings are for the years 1941 to 1945 only, as Section 12 of the Canadian National-Canadian Pacific Act stipulates that "Income deficits shall not be funded" but voted annually by Parliament. Generally speaking, the Capital Gains relate to repatriation of securities under the war-time United Kingdom Vesting Orders and the Capital Losses to major retirements of Road and Equipment not covered by depreciation accruals. For purposes of accounting sim-

plicity these Surplus Earnings, Capital Gains and Capital Losses of the National System have been applied in their entirety to the Capital Stock of the Securities Trust as no essential purpose would be served by making any arbitrary division between the Canadian National Railway Company and the Canadian Government Railways.

(*d*) The Capital Expenditures by Dominion of Canada on Canadian Government Railways represent only the direct appropriations by Parliament and accordingly are exclusive of capital expenditures on the Crown property financed by the Canadian National Railway Company.

The Dominion's Equity decreased $1,823,000 during the year as a result of line abandonment, sale of dock property, retirement of Equipment on the Canadian Lines less Capital Expenditures by the Dominion on the Canadian Government Railways. In respect of the Retirement of Equipment it should be mentioned that as no depreciation accruals were made prior to 1940 for Canadian Lines Equipment, the loss of service value, i.e., ledger value less salvage, has been charged against the Reserve to the extent of depreciation accruals from 1940, the balance being charged against the Equity Account.

The total book value shown for Proprietor's Equity is subject to the qualifying factors previously referred to herein under the caption "Audit Certificate".

National Utility Value of the System to the Dominion

A realistic view of the overall value of the Dominion's Equity in the System calls for consideration of an important element of value not possible of reflection in any set of accounts, i.e. national utility value. The System demonstrated its utility value to the Dominion as an arm of military defence in the war years 1939 to 1945 and, in addition, during the last five years of that period was able to make loan repayments to the Dominion Treasury aggregating $112,502,000 as the result of Surplus Earnings after the payment of Fixed Charges. In the post-war period thus far, the System has demonstrated its utility value to the Dominion in the country's conversion from war-time economy and in addition, notwithstanding the Deficits shown for the years 1946 and 1947, has afforded some indication of a peace-time Earnings potential provided it is able to maintain a future traffic volume reasonably approaching the present level, and is given:

(*a*) Some long-term and reasonably compensatory return through increased transportation rates in relation to increased wage rates and unit costs of materials, and

(*b*) A ratio of Fixed Charges to Operating Revenues reasonably comparable with that of other major railways in North America.

Wholly on the premise that the System were given these working conditions on a long-term basis, it has indicated some peace-time Earnings potential despite certain handicaps, from a strictly competitive and economic standpoint, which were existent at the time of amalgama- and still are inherent in some of its operations.

Looking to the future, these inherent operating handicaps, in our opinion, might well be made the subject of a special study with a view to determining the effect on operating results of those services of a national character as distinguished from those of a normally competitive character. From such a study the Railway enterprise and its Management policies could be more equitably and effectively evaluated than is possible under the present basis of viewing the operating results

Major Contingent Liabilities—including Capitalization of Pensions

Apart from undertakings for Capital Expenditures which are subject to authorization by Parliament and those for materials required in the ordinary course of business, Major Contingent Liabilities are as outlined in the relative schedule.

In respect of Pension Plans referred to in the relative schedule, we make the following amplifying remarks:

(*a*) Under the 1935 Contractual Plan a Reserve is set up on the books of the Railway against the Capital value of contracts in force, based on an actuarial estimate made by the responsible Railway officials, but not against pensions conditionally accruing. The Reserve is represented by the Pension Contract Fund established by the Railway the assets of which, amounting to $40,915,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

(*b*) The contributions under the 1935 Plan by employees presently in service are invested through the two separately administered Pension Trust Funds, the accounts of which are not included with those of the Railway. The assets of the separate Pension Trust Funds amounting to $26,933,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

(*c*) The year-end market value of the securities held in the Pension Contract Fund and the separate Pension Trust Funds exceeded the book figure based on cost and par value for the former Fund and cost for the latter. In this connection, however, we would make reference to our previous comments on current market values as of the 5th March, 1948.

(*d*) The total book value of the three funds in operation under the 1935 Contractual Plan is $67,848,000.

(*e*) No Reserves are set up on the books of the Railway against the Capital value of:

(i) Pensions being paid to employees retired under the Canadian National General Pension Plan prior to 1935 when the Plan became contractual;

(ii) Payments being made towards pensions to employees retired under the provisions of the Grand Trunk Superannuation and Provident Fund and of the Intercolonial and Prince Edward Island Provident Fund, both of which Funds have been closed to new members for several years, or

(iii) Non-Contractual Pensions conditionally accruing.

With the passing of time these Non-Contractual Plans will progressively lessen in relative importance to C.N.R. Pension Plans as a whole and in due course will terminate their existence. When that point is reached it is anticipated that, apart from the Pension coverage under the Railroad Retirement Act on the United States Lines, the National System Pension provisions will be centralized under the 1935 Contractual Plan.

In considering the foregoing outline, it should be borne in mind that the 1947 Pension charges through Operating Expenses cover the Railway's portion of payments to retired employees under all C.N.R. Plans and the increase in Pension Contract Reserve for the Railway's portion of the estimated capital amount of all Pension Contracts in force at the year-end under the 1935 Plan.

Foreign Exchange Conversions

Where foreign currencies are involved, the Balance Sheet accounts of the System are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange

(*b*) Sterling Currency
—at the former par of $4.86⅔ to the £ Sterling, and

(*c*) French Currency
—at approximately 15 francs to the dollar for the orginal investment in Hotel Scribe and 100 francs to the dollar for Working Capital accounts.

Basis of Accounting Consolidation

The Consolidated Accounts of the System embody those of the 84 constituent companies, as detailed in the relative schedule, and those of the Canadian Government Railways.

Apart from the Trans-Canada Air Lines, for which separate accounts are maintained, the basis of corporate consolidation is the holding by parent companies of more than 50 per cent of the Capital Stocks of the relative subsidiary companies. The amount of minority Capital Stocks of subsidiary companies held by the Public is set up separately on the Consolidated Balance Sheet whilst provision for the minority interests in the small amount of accumulated Surpluses of certain subsidiary companies is made in Other Unadjusted Credits.

In those cases where parent companies have acquired the securities of subsidiary companies at less than par value, the consolidation adjustments are effected mainly through the reduction of the issued securities and the related Discount on Capital Stock or Investments in Fixed Properties and Equipment, the two principal exceptions being:

(*a*) The excess of the par value over cost of the System securities acquired as a result of the war-time United Kingdom Vesting Orders which is carried as a Capital Gain in Proprietor's Equity Account, and

(*b*) The excess of the par value over cost of the System securities held in the Insurance Fund which is carried in the Insurance Reserve. In this case the issued securities are not eliminated from the Consolidated Balance Sheet but shown as being held in Special Funds.

We consider the Basis of Consolidation of the System's accounts to be sound in principle.

Previous Years' Recommendations to Parliament

From time to time in previous years there have been included in our Annual Reports, *inter alia*, certain recommendations to Parliament covering two major matters, i.e.

(*a*) The extension of existing depreciation accounting policies on the Canadian Lines, and

(*b*) The establishment of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion.

In view of the aforementioned reportings to Parliament and the consideration given to these matters from time to time by the Standing Railway Committee of Parliament we have deemed it unnecessary to again include the details of the two recommendations in this Report. We wish to state, however, that our interpretation of the events of the past year and those in prospect only tend to strengthen our own conviction on the ultimate advantages inherent in the implementation of such recommendations.

General Scope of Audit

The general scope of the test audit of the System accounts for the year 1947 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn are related to Corporate By-Laws, Orders in Council and Acts of Parliament;

(*b*) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, limited to a cross-section of the major expenditures so authorized.

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the System. In this connection we work in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable, etc., and through the carrying of Fidelity Bond Insurance with outside Underwriters, and

(*d*) Audit and certification of the Consolidated Income Account and Consolidated Balance Sheet together with the preparation of the Report for presentation to Parliament, as required by The Canadian National-Canadian Pacific Act, 1936, which Body is thus placed in possession of facts presented from an independent viewpoint.

The test audit, involving the use of some 480 audit programmes, covers the various Balance Sheet accounting units in Canada, the United States, London (England) and Paris (France) with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters which comprise the System as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine, Limited and the Trans-Canada Air Lines, the holdings in the Capital Stocks of the Affiliated Companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor are their accounts audited by us. In a few instances their accounts are certified by Public Accountants but for the most part they are audited by joint committees composed of System accountants and representatives of outside interests.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937, as amended 1945.

The primary function of the Securities Trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate Indebtedness (formerly to the Dominion but now to the Trust) and relative Collateral Securities, for the purpose of preserving any priority rights of the Dominion in respect of certain Unguaranteed Securities and subsidiary company Capital Stocks held by the Public. This function of the Trust, as a corporate holding agency, lessens in importance with the passing of time as Unguaranteed Securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our Audit Certificate appended to the accounts published by the Securities Trust, we comment as follows:

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' Report and a separate

Balance Sheet for the Trust. It is further provided that the Trustees' Report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its Capital Stock originating in the accounts of the Railway and, subject to the approval of the Governor in Council, any releases of Indebtedness or Collateral Securities belonging to the Trust.

Mr. FULTON: Could you tell us, with respect to the Vancouver Hotel Company Limited, shown on page 9, 100 per cent of 1946 profit, could you tell us what percentage of the capital investment in that hotel that profit represents?

Mr. MATTHEWS: The capital value in the Vancouver hotel, as I recall it, is something around $11,000,000.

Mr. FULTON: What percentage of that capital did the profit you received represent?

Mr. JACKMAN: How much profit?

Mr. MATTHEWS: I might say that the profit of the Vancouver hotel, after all charges including rental and depreciation, would total an amount of net income, let us say $288,000 in 1947, against a capital investment of something over $11,000,000. But the net income that we are talking about, that is declared, is $288,000, the net income of the Hotel company, the Vancouver Hotel Company. Now, as Mr. Cooper points out, in addition to that, the Canadian National Railways get 75 per cent of the rental that is charged against the company; but the hotel company, as such, declared and paid over to the two railway companies $288,000 net income in 1947, plus a division of the rental, 75 per cent and 25 per cent.

Mr. FULTON: Would you agree that that represents a return of approximately 2·6 per cent on the investment?

Mr. MATTHEWS: You would have to take into account with respect to the Canadian National, that it also got back 75 per cent of $280,000.

Mr. FULTON: That rental is the thing which has to be deducted for profits; but I am speaking of the profit shown in 1946; that represents, approximately, $2\frac{1}{2}$ per cent on the investment.

Mr. MATTHEWS: We are talking, in our report, of the Vancouver Hotel Company; and I think if you are going to relate that to the capital investment, you must take into account the profit of the company plus Canadian National's percentage from the whole rental against our company. So, in fact, if you take in the rental which comes back to the owners, you will really take your $280,000 instead of your $288,000.

Mr. FULTON: And that would be your return after depreciation; making it about 5 per cent.

Mr. MATTHEWS: About $5\frac{1}{2}$ per cent, roughly.

Mr. JACKMAN: Why should you not make more than that in a period of full occupancy and of high level of prosperity, because if you do not have anything like your maximum occupancy, you are going to show a loss. Supposing you have, let us say, 60 per cent occupancy, which is very good for hotels, then your Vancouver property would not show you any profit at all.

Mr. VAUGHAN: We think we are doing reasonably well with the Vancouver hotel, having regard to all the circumstances. We think the charges now are about as high as we can reasonably put them.

Mr. JACKMAN: Your depreciation on that hotel is at a rate of $2\frac{1}{2}$ per cent?

Mr. COOPER: We are charging depreciation at the rate of 10 per cent on the value of the furniture and the furnishings. We are paying income taxes and we are making a generous allowance for upkeep, and having done all that,

in the period since the hotel was opened for operation, we have had a surplus of $2,663,000, which has been divided between ourselves and the Canadian Pacific, and we think we have done pretty well.

Mr. JACKMAN: It being a seperate company, its income is all subject to corporate taxation in Canada.

Mr. COOPER: Yes, sir.

Mr. JACKMAN: Even though the Crown owns half of it?

Mr. COOPER: The hotel is owned by the Canadian National Railways but we rent it to an operating company which pays income tax on the result of its operation.

Mr. JACKMAN: Yes.

Mr. MATTHEWS: The unpaid balance of the deficit for the year 1947 has been set up as a current account against the Dominion of Canada pending the appropriation by parliament of the sums required to cover the 1947 deficit as a whole. Since writing this report I think that the deficit was voted by parliament.

A physical inventory of material and supplies was taken by the railway as at the 30th of September, 1947. A physical inventory was taken over the system and adjustments were made. And when you take the figures, there was created operating expenses of something over $500,000, but we think it was a very satisfactory inventory. The current assets show not very much difference than in previous years. Deferred assets are composed largely of contracts receivable in connection with the sale of land in western Canada and deferred accounts collectable in respect of various matters.

Discount on funded debt represents the unamortized portion of the discount and issue expenses incurred at the time the relative securities were sold.

Mr. JACKMAN: As to the physical inventory, you value everything at the time of the physical inventory and you make a profit or loss on that, depending on your book value or cost.

Mr. MATTHEWS: As we have said, it is difficult to say to what extent that credit of $500,000 was due to rising prices in the interim. But the items of ties, rails and fuel are all on a weighted average cost. General stores and materials are taken on the latest invoice cost.

We point out to you that the stock turns over 2½ times in a year. So, to the extent that there is a lapse of time between that average of 2½ times a year, and the year's end, there would be some element there.

Mr. JACKMAN: Is not that a little different from ordinary corporate accounting?

Mr. MATTHEWS: Yes, oh yes. As a matter of fact industrial accounting—this is not different from railway practice, generally, but you are thinking in terms of industrial practice except, Mr. Jackman, that you will find that if you make an analysis of the United States corporation, there is a very substantial amount of inventory profits included in 1947.

One of the things which is pointed out by the American Management Association is that many companies, most companies, do price their inventories in commercial undertakings at cost in that market, but not the railways.

Mr. JACKMAN: There is no criticism to be found in that method?

Mr. MATTHEWS: No, but I think we have to make a very definite line of demarcation between railways and commercial enterprises. In the case of a railway, its materials and supplies are not the basis of its operation, whereas in the case of industrial companies, they are buying and selling merchandise, so their inventories are of extreme importance.

Mr. JACKMAN: What is the value in railway accounting of taking up profit or loss on your inventory at the end of the year?

Mr. MATTHEWS: The inventory was priced on the basis that we set out, and it was adjusted to the older values, and it was adjusted to that inventory price as we have indicated, and it is a very proper thing to do.

Mr. JACKMAN: And there happened to be a credit to your operating account?

Mr. MATTHEWS: Yes. And it could have been the other way. But it does indicate the stocks are reasonably well controlled. They have a very good stores system in the Canadian National System.

Mr. FULTON: Under the heading of deferred assets on page 10 you refer to: "Contracts receivable in connection with the sale of land in western Canada . . ." In the consolidated balance sheet there is no breakdown which enables me to determine what amounts remain on hand for sale.

Mr. MATTHEWS: That was given in yesterday's evidence, I think.

Mr. FULTON: Thank you.

Mr. MATTHEWS: Decline in market values of owned securities since the 1947 year-end.

While the decline in the market values of government and national system security issues since the year-end is a matter of common knowledge, we consider that we should mention to parliament the fact that such market decline up to the 5th of March, 1948, would have the effect of converting the year-end market excess over book value of the railway's owned securities to one of a minor market deficiency. It should be explained, however, from the viewpoint solely of investment policy, that if the system securities held in the railway insurance fund were carried on the books at the actual cost instead of par value there would still remain some over-all market excess in owned securities of the railway as of the 5th of March, 1948.

Perhaps I should just enlarge on that a little. At the end of December, the owned securities of the railways showed a surplus of $3,405,000. That was at the end of December. Now, as you know, after the action which was taken by the United States treasury, and followed throughout Canada, there was a general decline in all government or government-guaranteed securities, and on the National Railway holdings for those securities there was a general reduction of about 4 per cent in the over-all market values.

And, at the 5th of March it had affected the operating surplus of $3,405,000 to the small degree of $32,000. But we point out that, from the point of view of investment policy, the company is still actually well ahead of any market decline.

Mr. JACKMAN: But you cannot help it very much anyway.

Mr. MATTHEWS: In any event their investment policy has been quite sound, and there is, in the insurance fund, in writing up the securities, to par, somewhere in the neighborhood of $1,000,000 over the years. That represents an excess over cost, so that, while the surplus at the end of December had disappeared by March, there was nothing anybody could do about it. They are government and government-guaranteed securities, and everybody's portfolio has suffered in the same way.

Capital stock, liabilities and reserves:

Capital stocks and long-term debts, as detailed in the relative schedules, are shown on the balance sheet in respect of public holdings. They are shown as amounts held by the public and they are only internal combined capital debt, and they were increased by the net amount of $23,370,000 during the year. All this capital debt increase of $18,000,000 was utilized for the acquisition of Trans-Canada Air Lines' share.

Now, in respect of the several corporate reserves, we point out that of the $207,000,000, $81,000,000 is represented by special funds and other specific

investments. None of these reserves, however, are presently in the nature of reversible appropriations of surplus nor is the accounting policy of the system such as would result in the creation of "hidden" reserves.

From time to time one hears—well, for instance, during the Freight Rate Inquiry— some misconception of the idea that, because you had a large reserve position, that, in some magical way those reserves could be utilized to pay other expenses. That, of course, is not realistic thinking. The reserves of the National Railways are all noted and their accounting policy does not lend itself to any hidden reserve. I would like to make that point clear.

The insurance reserve includes the amount set aside for major unadjusted loss claims at the date of the balance sheet.

Accrued depreciation—United States Lines—applies to equipment from a date prior to the 1st of January, 1923, and to fixed properties (excluding track structure) mainly from the 1st of January, 1943, in accordance with the regulations of the Interstate Commerce Commission.

Other deferred liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the provinces of Ontario and Quebec, and the balance of the obligation to the state of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits include the estimated proportion of prepaid revenues on freight in transit, excess of actual revenues over year-end estimates carried in suspense, estimated liability for injuries to persons; estimated liability for over-charge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Dominion of Canada proprietor's equity:

Dominion of Canada—proprietor's equity—is set forth in the balance sheet and the relative schedule in accordance with Section 2, subsection (*f*) of the Canadian National Railways Capital Revision Act of 1937, which defines the compensation of the account. The Dominion of Canada proprietor's equity is just an explanatory outline again of these equity accounts and I hardly think I need to read them to you.

The CHAIRMAN: I do not think so.

Mr. MATTHEWS: There is nothing which is new.

National utility value of the system to the Dominion.

A realistic view of the over-all value of the Dominion's equity in the system calls for consideration of an important element of value not possible of reflection in any set of accounts, i.e., national utility value. The system demonstrated its utility value to the dominion as an arm of military defence in the war years 1939 to 1945 and, in addition, during the last five years of that period was able to make loan repayments to the dominion treasury aggregating $112,502,000 as the result of surplus earnings after the payment of fixed charges. In the post-war period thus far, the system has demonstrated its utility value to the dominion in the country's conversion from wartime economy and in addition, notwithstanding the deficits shown for the years 1946 and 1947, has afforded some indication of a peacetime earnings potential provided it is able to maintain a future traffic volume reasonably approaching the present level, and is given:

(*a*) some long term and reasonably compensatory returns to increased transportation rate in relation to increased wage rates and unit costs of materials, and

(*b*) a ratio of fixed charges to operating revenues reasonably comparable with that of other major railways in North America.

Wholly on the premise that the system were given these working conditions on a long term basis, it has indicated from peacetime earnings potential despite

certain handicaps from a strictly competitive and economic standpoint, which were existent at the time of amalgamation and still are inherent in some if its operations.

Looking to the future, these inherent operating handicaps, in our opinion, might well be made the subject of a special study with a view to determining the effect on operating results of those services of a national character as distinguished from those of a normally competitive character. From such a study the railway enterprise and its management policies could be more equitably and effectively valuated than is possible under the present basis of viewing the operating results.

Mr. NICHOLSON: I wonder if Mr. Matthews would be good enough to enlarge on that last paragraph.

Mr. MATTHEWS: When these properties were formed into the National Railways System in 1922, they were unable to pay their full cost of wages and materials and there was a grouping together of these roads, all of which had been constructed under different conditions. The result was that it was different from the Canadian Pacific which was constructed as, more or less, of a composite unit, and always with the idea—and a very proper one—of drawing revenue producing traffic.

Now, there are many spots on the Canadian National Railways lines that one might say perform services that are partly for the national good of the country and not strictly competitive, from the point of view of costs. For instance, you cannot get away from the fact that moving traffic, let us say, from Montreal to Halifax, over the route of the intercolonial railway is considerably longer a haul than that of the Canadian Pacific with its short line down to Saint John. It is just one of those facts that we have had to put up with; but it was part of Confederation, and properly so.

The location of the companies, generally speaking, and the light traffic branch lines of the railways are factors which might be made, we respectfully suggest, the subject of study, because you frequently hear statements made, "Oh, you cannot take the Canadian National Railways as any base." But I do not agree with that because our view of the national management is that it is just as keen, in a competitive sense, as any other railroad management.

I wish it were possible to have the results of the national system so presented that there would be some separation of those operations which have to do with the national service from those which have to do with a purely competitive service, because I feel, that over a period of years, the management policies and the value of this railway enterprise, which is so frequently compared with the Canadian Pacific Railway, are matters that might be given some consideration.

Mr. HAZEN: I suppose you will admit that the Canadian Pacific Railway has a national utility value too.

Mr. MATTHEWS: Indeed we would; but it is a question of comparison, and we all know, only too well over the years, that in times of stress, this company is always compared with the Canadian Pacific without regard to its fundamental realities. That is all. No one would take anything away from the Canadian Pacific because they have done a great national service.

Mr. MOORE: In view of the national utility value of all railways, you might say, I would like to ask the management of the Canadian National if there has been any request recently to take over the operation of the Hudson's Bay Railroad which has a definite utility value, particularly with respect to military matters.

Mr. VAUGHAN: The Hudson's Bay Railroad is owned by the Dominion of Canada so I cannot see why there would be any advantage to the Canadian National Railways in changing its present method of operation.

Mr. MOORE: Would they not save in the way of administration cost?

Mr. VAUGHAN: No, sir. The Canadian National Railways at the present time operate the Hudson's Bay Railway as agents for the Dominion government, and their overhead charges are comparatively low.

Mr. FULTON: In view of the interest that has been expressed in the question of recapitalization of the Canadian National System I would like to relate that to what you have just been saying with respect to the separation of the national utility value of the railways and their aspects with respect to operations which might be said to be strictly competitive. In short, my idea is this. I take it from what you said as to what it costs to operate the intercolonial railways part of the system, from Montreal to Halifax, that it is, generally speaking, non-profitable; but I think you said it was justified on account of its national utility value.

Mr. MATTHEWS: We are speaking of excess mileage in comparison with the Canadian Pacific only.

Mr. FULTON: But were you not applying it expressly to that portion of the line?

Mr. MATTHEWS: I only gave it as an illustration, that as an element of Confederation the intercolonial railway was a component part. But the Canadian National Railways have to compete, in transportation, between Montreal and the Atlantic coast, and they have to haul a great deal further than the Canadian Pacific. We are just speaking here comparatively, nothing else, because over the years we have seen many periods when this institution was made the subject of comparison with the Canadian Pacific, under conditions which were just not comparable.

Mr. FULTON: I agree with you. But my point is that the mere setting aside of that part, or these specific parts of the railway on the basis which you set forth would not meet the problem which has been referred to, the necessity, if such there be, for recapitalization.

Mr. MATTHEWS: We point out that notwithstanding these apparent handicaps which have been with the system from the first day it came into being, and always remembering that the Canadian National Railway System was the result of bankrupt privately owned railways, together with the Canadian government railway, that is just a fact and I am not going to enter into any discussion as to the merits of private or public ownership. These are just historical facts.

Mr. FULTON: I thought it might have been implied that even if for revenue purposes—if I might put it that way, those portions of the railway which are less profitable but which are important nationally, if they could be set aside, and the government said, "We are willing to accept a deficit on those parts because they make a contribtuion to the national transportation system"—still the problem of meeting capital charges on the over-all railway would exist and would still have to be met.

Mr. MATTHEWS: Yes.

Mr. NICHOLSON: If, in 1922, it had been decided as government policy to place the Canadian National Railways in a similar position to the Canadian Pacific or the American lines, with a view to fixed charges to operating revenue, then what reductions would have been affected in the capital debt of the Canadian National?

Mr. MATTHEWS: During that period they did not have anything in the way of fixed charges. There was a deficit on the actual material and labour costs.

Mr. JACKMAN: On parts of the line but not on the over-all picture.

Mr. MATTHEWS: Yes, on the system.

Mr. JACKMAN: Has not the system always earned its operating charges?

Mr. VAUGHAN: What Mr. Matthews is saying is that when the various railways came into the Canadian National Railways the total operations of those railways produced a deficit before any fixed charges were taken into account.

Mr. JACKMAN: Prior to 1922.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: But since it has been under government ownership?

Mr. VAUGHAN: Since it has been under government ownership, every year we have had an operating profit before fixed charges were taken into account.

Mr. JACKMAN: Let us take the intercolonial railway as an example. When you say that that road does not meet its operating charges were you considering the money which the railway received under the Maritime Freight Rates Act.

Mr. MATTHEWS: You mean the Atlantic region, in 1947?

Mr. JACKMAN: Speaking generally over the years of operation.

Mr. VAUGHAN: There was a heavy operating loss on the Atlantic region for 1947 amounting to over $10,000,000.

Mr. JACKMAN: Even before the charges for funded indebtedness, there is a straight operating loss?

Mr. VAUGHAN: Yes. Even before charges for interest there is a direct operating loss.

Mr. JACKMAN: Are there any other branch lines or parts of the system which your accounting figures show do not meet their actual out-of-pocket expenses?

Mr. VAUGHAN: Yes, there are other lines. We are analysing every line at the present time. Take the line from Redpath Junction to Prince Rupert. There is quite a heavy deficit on the operation of that line.

Mr. JACKMAN: Are there any bonds out on that line?

Mr. VAUGHAN: Oh, yes, there is a substantial bond issue on that line.

Mr. MATTHEWS: Major contingent liabilities—including capitalization of pensions.

Apart from undertakings for capital expenditures which are subject to authorization by parliament and those for materials required in the ordinary course of business, major contingent liabilities are as outlined in the relative schedule.

Mr. JACKMAN: Have we handy a figure showing what the capitalized value of accruing pensions are, on the pension plans other than the 1935 one?

Mr. MATTHEWS: No, I have not, Mr. Jackman, but it is a substantial figure. It would be a substantial figure. Might I say again, that is something beyond the control of the railway management, because they would have to seek the authority of the proprietor in order to establish such a reserve, and we feel that it would have to be approved by parliament. There would have to be a large transfer from proprietor's equity.

Mr. JACKMAN: Did you not give us a figure some years ago, Mr. Cooper, of the actuarial computation of the capitalized value of the accruing pensions?

Mr. COOPER: I think I mentioned a figure of something like $60,000,000. But since then, wage scales have been stepped up to a level at which I do not think that figure would be of very much use. The fact is, of course, that we have a very substantial amount set aside for pensions. All in all, it amounts to $67,848,000 at the end of 1947, and that has all taken place since 1935. So I think we are doing very well.

Mr. MATTHEWS: In addition to what the company sets up, the employees make contributions under the 1935 plan, and there is accumulated the sum of $26,933,000, and those two, together, provide $67,848,000. Now, at the year's end these funds had a surplus, on the 5th of March. They were affected in the same way as the railways.

Now, in respect of the non-contractual plans we simply point out that there are no capital valuations of these plans. Pensions which are paid to employees, or those payments which are made towards Grand Trunk superannuations or intercolonial railways, are charged to railway pensions account, but no contractual pensions are capitalized, no non-contractual pensions are capitalized. These non-contractual plans, of course, in due time will cease to be, although there will be some considerable time before that arises.

Foreign exchange conversions. United States currency is on a par with sterling at $4.86 to the pound sterling and French currency at approximately 15 francs to the dollar.

As to the basis of accounting consolidation, I do not think you are interested in that, apart from the fact that we think it is sound.

Previous years' recommendations to parliament.

From time to time in previous years there have been included in our annual reports, inter alia, certain recommendations to parliament covering two major matters, i.e.:

(*a*) The extension of existing depreciation accounting policies on the Canadian lines, and

(*b*) The establishment of uniform accounting regulations for Canadian railways under the statutory authority of the dominion.

Mr. JACKMAN: Under that second paragraph (*b*) has the Canadian Pacific adopted Inter-State Commerce Commission accounting principles?

Mr. MATTHEWS: In respect of what?

Mr. JACKMAN: In respect of the establishment of uniform accounting regulations for Canadian railways, do they follow the Inter-State Commerce Commission now?

Mr. MATTHEWS: As far as our recommendations over these many years in this matter are concerned, it has never been done, as we have endeavoured to make clear. The Canadian National Railways is, apart from depreciation on fixed properties, operated on a basis very closely allied with the Inter-State Commerce Commission.

Now, so far as the Canadian Pacific is concerned I cannot say what their internal basis of accounting is. One can only judge from the reports that are published, but there are differences in accounting bases, undoubtedly. On the matter of uniform accounting regulations, we feel that, in view of the outlook for rate structures and wage negotiations and various other things, particularly the rate structures, that if the railways have to go to these bodies for approval of rates, there is something pretty definite to be said, we think, for those bodies having first prescribed the basis of accounting.

In the United States where the Inter-State Commerce Commission both prescribe the accounting regulations and the rate of increases or adjustments of any kind, they have a fairly accurate knowledge of what the facts and the costs are. For that reason, amongst others that we have given in the past, we have thought, and we repeat again, that we believe that uniform accounting regulations under statutory authority of the dominion, are something to which the government might still give some consideration.

Mr. NICHOLSON: Do the Board of Transport Commissioners have authority to take some action along that line, or would it require an act of parliament?

Mr. MATTHEWS: I could not say what the legislative procedure would have to be.

Mr. HAZEN: Do you follow the accounting system of the Interstate Commerce Commission?

Mr. MATTHEWS: Yes. The Canadian National Railways, apart from depreciation on fixed properties follow all of the main requirements of the Interstate Commerce Commission.

Mr. HAZEN: And are you obliged to do that because you have lines in the United States?

Mr. MATTHEWS: The national railways have never been obliged to do so in Canada, but in the United States, of course. And at the time the national system was formed in 1923, they adopted, basically the Interstate Commerce Commission accounting for their Canadian lines.

Mr. HAZEN: The Canadian Pacific has some lines in the United States?

Mr. MATTHEWS: That is right.

Mr. HAZEN: Do they have to have two systems?

Mr. MATTHEWS: In the case of the Canadian Pacific Railway, their lines in the United States are operated very largely through their holdings in subsidiary companies, whereas the Canadian National—

Mr. HAZEN: Is it because of the regulations of the Interstate Commerce Commission that they are obliged to—

Mr. MATTHEWS: Oh no, nobody in Canada is obliged.

Mr. HAZEN: Oh, I though that you were, maybe I have been mistaken.

Mr. MATTHEWS: The Canadian Pacific and the Canadian National operate lines in the United States. Those United States lines must follow the Interstate Commerce Commission regulations. But in the case of the Canadian National, the American lines form part of the national system whereas in the case of the Canadian Pacific, their American lines are operated largely through subsidiary companies.

Mr. HAZEN: If it is so difficult to get the Canadian Pacific to adopt your system in Canada, would it not be possible for you to adopt the Canadian Pacific's system then. Might it not be much easier for us to do that?

Mr. NICHOLSON: It seems to me that this recommendation has been before the committee for a great number of years.

Mr. MATTHEWS: I think we first brought it to the attention of parliament in 1933 or 1934.

Mr. NICHOLSON: And you think it is still desirable that it should be done?

Mr. MATTHEWS: In our opinion, even more so.

Mr. NICHOLSON: According to the evidence which was given before the Board of Transport Commissioners, it is very difficult to assess a case when the accounting systems of the two companies are so different.

Mr. MOORE: Was that one of the recommendations made by the Royal Commission in 1922?

Mr. MATTHEWS: No.

Mr. JACKMAN: Perhaps Mr. Cooper could tell us whether or not the Canadian Pacific accounting is on the Interstate Commerce Commission basis?

Mr. COOPER: No, I do not care to speak about the Canadian Pacific accounting.

Mr. JACKMAN: I think you once said that you belonged to an association of railway auditors or accountants or comptrollers, or something of that sort and that you went on the record some years ago. To your knowledge do you understand that they are on the Interstate Commerce Commission basis?

Mr. COOPER: On this matter of uniform accounting, to make our position clear, I would like to say that we took the initiative in endeavouring to secure uniform accounting, and we have never changed our view that there should be uniform accounting for the railways in Canada.

You said something, this morning, Mr. Jackman, which, if I understood it correctly, left the implication that the auditors were advocating uniformity of accounting and that we were opposing it.

Mr. JACKMAN: I did not know you were for it, and I am glad to know you are.

Mr. COOPER: Our contention is that the uniform rules shall be the Interstate Commerce Commission rules; and when the auditors made their recommendation in 1934, they recommended what they called a distinctly Canadian classification, which would be something different from the Interstate Commerce Commission rules. In fact, they suggested that we should get away from references in Canada to the Interstate Commerce Commission classifications. Now you will understand and appreciate, I am sure, that because our railway is an international railway, that such portion of the railway which is in the United States must, of necessity, carry out Interstate Commerce Commission accounting rules, and that it would be a matter of considerable difficulty if we had imposed upon us two different and conflicting rules of accounting.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

10th March, 1948.

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—Acting under your authority we have audited the accounts of the CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament.

The accounts of the Steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion Government.

Supplementing our Audit Certificate appended to the accounts published by the Steamships, we comment on the Consolidated Income Account, Consolidated Profit and Loss Account and Consolidated Balance Sheet as follows:—

Consolidated income account

The Surplus amounting to $523,000 for the year 1947 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Interest and Depreciation	$1,590,000
Less: Interest	573,000
Surplus before Depreciation	$1,017,000
Less: Depreciation	494,000
Surplus	$ 523,000

The general expenses of operation largely consisting of wages and materials, which continued to increase during 1947, include the following items:

(*a*) Provision covering the balance of the presently estimated excess expenditure over the cost assumed by the Dominion Government with respect to the reconversion and overhaul of the "Lady" ships *Nelson* and *Rodney*;
(*b*) Administrative Charges by Canadian National Railways;
(*c*) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters;
(*d*) Pension payments to the Canadian National Railway Company as Pension Contract Underwriter, and
(*e*) Tax provisions covering principally Dominion Unemployment Insurance, Province of Quebec Capital and Income Taxes, and Municipal Taxes.

Interest on Funded Debt was at the rate of 5 per cent and Interest on Government Advances for Deficits 2·5 per cent or a composite rate of 4:29 per cent at the year-end.

Depreciation covers all vessels at the uniform rate of 5% for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of Capital Assets.

Consolidated Profit and Loss Account

The Deficit decreased $615,000 as a result of the Surplus in 1947 and Capital Profits realized from the sale of Vessels.

Consolidated balance sheet

Investment in Vessels is carried on the general basis of cost.

Accrued Depreciation covers the period from the inception of operations in 1929 to 1947.

Replacement and Insurance Funds aggregating $4,432,000 are composed of investments in the securities of the Dominion Government and the National System (Dominion Guaranteed) together with Cash and sundry current assets. The year-end market value of the securities held in these funds in total exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, however, applies to these securities as is outlined in our comments on National System valuations.

The Replacement Fund decreased $2,565,000 during the year as a result of the release of funds for the purchase and conversion of Vessels less Depreciation Accruals paid into the Fund, proceeds from Vessel Sales and Insurance Recoveries together with the 1947 Profit on the overall operations retained in the Fund and credited to "Vessel Replacement Fund Earnings" in the Income Account.

The Insurance Fund increased $222,000 during the year. The 1947 Profit on the overall operations was retained in the Fund and the corresponding Reserve. With particular reference to the "Lady" and "Diesel" ships, we would point out that the 100 per cent insurance risk is presently carried in the Fund.

Accounts Receivable and Payable of all classifications have been tested by us on the same basis as that outlined for the National System.

Current Assets show a ratio of 1·6 to 1 of Current Liabilities. In this connection it should be mentioned that a cash payment of $256,000 was made to the Dominion Government in reduction of Advances in the early part of 1948. In 1946 Current Assets showed a ratio of 2 to 1, out of which a cash payment of $1,105,000 was made to the Government in reduction of Advances in the early part of 1947.

Discount on Capital Stock represents an intangible book value set up at the time of incorporation to offset the par value of the shares issued in consideration only of the guarantee by the Dominion of the Steamships Bonds.

Capital Stock and Funded Debt were unchanged during the year as Capital Expenditures were financed through the Replacement Fund.

Dominion of Canada account represents only the balance of Advances for Deficits, all Advances on Capital account having been previously repaid to the Government.

Accrued Reconversion and Overhaul Expense represents the estimated balance payable to contractors in respect of the "Lady" ships *Nelson* and *Rodney*.

Unadjusted Credits are comprised of uncompleted voyage suspense items.

The Insurance Reserve includes the amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

Profit and Loss covers the period from the inception of operations in 1929 to 1947. In considering the Deficits we would again point out to Parliament that Interest on Advances for Deficits has been charged for the entire period.

Major Contingent Liabilities of the Steamships relate to Pension Plans, with reference to which we would point out:

(*a*) That a Funded Reserve is provided through the C.N.R. as Pension Contract Underwriter against the estimated capital value of contracts in force under the 1935 Plan but not against pensions conditionally accruing. In this connection it should be borne in mind that Operating Expenses of the Steamships are charged with Pension payments to the C.N.R. Pension Contract Fund, and

(*b*) That the contributions by the Steamships employees presently in service are invested through the separately administered Pension Trust Funds under the C.N.R. 1935 Plan.

Where foreign currencies are involved, the Balance Sheet Accounts of the Steamships are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange, and

(*b*) Sterling Currency
—at the rate of $4.02 to the £ Sterling covering only Working Capital accounts.

It should be mentioned that the Funded Debt is payable, at the option of the holders, on the "three-way" basis, i.e. in Canadian, United States or Sterling currencies.

The test audit of the Steamships for the year 1947 was similar in scope to that of the National System previously outlined in this Report.

I say that we are ready to adopt the Interstate Commerce Commission rules in toto. We would recommend that they be adopted in Canada. We are objecting to anything different. If the Interstate Commerce Commission rules were adopted in Canada we would go along, with all the implications involved, including depreciation on the fixed properties. But when you talk about uniformity, let us have full uniformity; let us have uniformity in the favourable factors as well as in those factors which force additional charges on the Canadian National Railways. Let us have uniformity in everything. If we can have full uniformity, even though that involves the adoption of depreciation accounting for fixed property, we still will go along. But as I say, don't give us a set of rules which add to our charges and leave us on some different basis with respect to the other factors.

I do not know whether I make myself clear or not. I would like to make it very clear if I have not done so. We do not oppose uniform accounting, but we do oppose a different set of accounting rules in view of the fact that we are an international line, and because we want to be able to make comparisons with other railroads in the United States. Let the uniform rules which are to be adopted be rules which we call the standard railway accounting regulations.

We have a problem at the present time in connection with Trans-Canada Airlines. We devised a set of accounting rules and regulations for Trans-Canada Airlines and we were immediately confronted with the fact that when our people want to make a comparison with the other major lines in the United States there were differences in the accounting rules. And not only is that so, but there are differences between the International Airlines, such as the French, the Dutch, the British and others. What is going on at the present time is this. There is a group of experts at work at the present time trying to work out uniform accounting rules which will apply universally to all international air carriers. Now, that is the sort of progress we want to make. We do not want a distinctly Canadian type of accounts, a type which is nationalistic or isolationistic. We prefer to be a member on equal footing with other railroads and other international airlines, with our accounts being constituted on a basis in strict conformity with theirs, and so that you can take them and draw correct conclusions from them.

Mr. Jackman: I think we are in agreement with you, Mr. Cooper. You mentioned something about interest charges. You were only speaking of accounting policy?

Mr. Cooper: What I was speaking of was uniform rules.

Mr. Jackman: It is only in connection with the treatment of the interest charges, not in connection with the other accounts to which you were referring?

Mr. Cooper: The question came up once, you will recall, of income tax. What we are urging is that we be put on a uniform basis with respect to all other items. What we are objecting to is that we should have enforced on us those factors which add to our costs and we get no relief with respect to factors which would reduce our costs. I think we have a very reasonable case.

Mr. Jackman: That brings in the national utility value of the system, does it not?

Mr. Cooper: Pardon me, I didn't hear what you said.

Mr. Jackman: I said, that brings in the national utility value of the system, does it not?

Mr. Cooper: Now may I also speak about depreciation accounting because it has been mentioned here. I do not want to take up the time of this committee unduly; you have heard about this subject for a number of years. Even though I am reluctant to take up the time of the committee, it does not seem to me to be quite fair to the Canadian National Railways to leave the situation just where it is at the moment. With respect to depreciation accounting on equipment there should not be any question but that we are on all fours with the other railroads in the United States or say the North American continent. We are accruing depreciation on a $3\frac{1}{3}$ per cent basis, giving our equipment a life of 27 years, and I believe the life of our equipment is in excess of that. In other words, I believe that we are making a generous provision for depreciation on equipment. We started depreciation accounting on equipment in 1940, and in the intervening years—1940-47—we have charged our operating expenses with $131,737,000. In that period of time we have retired equipment amounting to $23,334,000 which means that in the eight year period we have accumulated a reserve of over $100,000,000. Our Canadian reserve at the end of 1947 represents over 20 per

cent of the value of our equipment, and that sum has been accumulated in eight years. On our American lines they have accumulated 42 per cent of the ledger value of their equipment in a period of 41 years. You can therefore see in so far as depreciation on equipment is concerned that there is not a shadow of a doubt but that the provision we are making is adequate. It conforms to general practice and is at least on a scale as generous as under the policy followed with respect to lines in the United States. Now we do differ from standard railroading accounting practice with respect to depreciation on fixed property. There is no misunderstanding about that. In our 1942 report we stated very clearly what our depreciation policy was. We said "It is considered desirable that the depreciation policy of the railroad shall be indicated so that the record may be clear as to the basis upon which the accounts herein presented have been stated", and we went on to explain what we were doing. Any thought that something is now being uncovered or brought to the surface is, I think, completely wrong. The reasons we differ with respect to other railroads on this matter of depreciation accounting for fixed property are these: United States railroads and the Canadian Pacific adopted depreciation accounting in 1943. For over 40 years they had contended that depreciation accounting for fixed properties was wrong and was not necessary. They changed their position in 1943 because they became subject to excess profits tax. That is not logic; it is a policy of expediency.

Mr. Jackman: That is understandable.

Mr. Cooper: Do you agree with that? Then when they adopted depreciation accounting they said they would not bother about rails and ties and ballast but on those items they continued on a retirement accounting basis. What logic is there in that? If there is anything subject to depreciation it is rails, ties, and ballast, but they said "Oh, no, we will not adopt depreciation accounting on those things, we will confine it to bridges, stations, shops, telegraph posts, and right of way fences." What kind of logic is there in that? We said we would not go along, and when this contention for depreciation accounting for fixed property for railroads is brought up it does not convince me at all. Moreover, in addition to the things I have mentioned I think that in connection with the Canadian National Railways there are other factors. We should remember first of all that the Canadian National Railroad is a government enterprise. There are no outside shareholders; there are no market quotations for the shares no one is going to take our balance sheet and be misled into buying or selling securities of the C.N.R. Moreover, if in 1947 we were to have charged up some $8,000,000—and I think that was the figure you were looking for this morning, Mr. Jackman—

Mr. Jackman: Yes.

Mr. Cooper: —If we had charged that amount and said we had had a deficit of $23,000,000 instead of a deficit of $15,000,000, we would have had to go to the Department of Finance and ask that department to give us $8,000,000 over and above the amount for which we did ask. Now we could not adopt depreciation accounting involving a charge on the dominion exchequer without the approval of the Finance Department, and rightly so. It might be all right in 1947 when the national revenues are buoyant that they would say "Yes, we will give you $23,000,000 instead of $15,000,000". However, when hard times comes back, if they do, as they did in 1932, 1933, and 1934, the government I fear would do exactly as it did in the case of the Canadian National Steamships. The government would say "It is not necessary for us to provide, out of public funds by taxation, sums of money which you can set aside as a depreciation reserve." If the government said that we go back to the stage where we have two sets of accounts. We have a cash income and we have certain non-cash charges, and we have to begin deducting from our published figures items which are not represented in cash. There you get confusion.

You only need to go back to the accounts prior to 1937 and try to reconcile the published figures of the railway with the amount of money which the government said the railway lost. Now I do not want to take up your time but another difficulty we would have would be that we have no inventory. You cannot pull figures out of the air upon which to set up depreciation accounting. The rates vary. The rate is different for a bridge, or a station, and all the other elements of fixed property. It cost the Interstate Commerce Commission $50,000,000 and it cost the class 1 railroads of the United States $153,000,000 to make an inventory of their property and it took them, I think, some fifteen years to make that inventory. We are not going into depreciation accounting, as I said before, by taking the figures out of the air, and I do not think we are justified at this time in setting aside engineers and other technical employees to compile an inventory of the Canadian National Railways in order that we can follow an accounting theory, which as I say, has no logic in it at all.

Mr. Hatfield: Who directs the policy of the Canadian National Railways?

Mr. Cooper: So far as accounting policy is concerned, I do.

Mr. Hatfield: Are you a director?

Mr. Cooper: No, sir.

Mr. Hatfield: How many directors have you?

Mr. Cooper: We have seven.

Mr. Hatfield: What do they do?

Mr. Vaughan: They perform the duties which any director does in a corporation. They meet regularly and deal with important questions of policy and approve transactions which require to be approved under the by-laws of the railway.

Mr. Hatfield: They are just a shadow board.

Mr. Vaughan: No, sir, decidedly not, unless you call the board of directors of every company in existence a shadow board.

Mr. Cooper: I should like to add one or two sentences to my last statement because I think, Mr. Jackman, you will agree with this. Either system will produce the same results. Under either system, this is what you would do: you buy a piece of property and you wear it out. You must charge the loss to operating expenses. You can do it by spreading the loss over the years, and that is called depreciation accounting. You can charge it to your expenses at the time the loss is incurred and that is retirement accounting.

Mr. Jackman: The loss is being incurred each year of operation. It is for that reason I favour the establishment of the system advocated by your auditors and by myself. You say you provide for the loss at the time it is incurred, namely, the time of renewal or replacement. I prefer to do it currently, each year. I am in entire agreement in regard to the rolling stock. There is no difference of opinion there.

What does cause me concern is a situation such as I endeavoured to outline this morning, when we had depreciation of properties in the United States of $67,000,000 against which was set up a reserve for depreciation of $952,000. We had an estimated $700,000,000 of depreciable property in Canada, certainly ten times as much physical property as we have in the United States, yet renewals and replacements, which is the only item deducted from operations as a charge during the year, was only $881,000. In other words, we have a lesser amount to take care of depreciation on ten times the property.

Mr. Cooper: May I explain that? In 1947, we handled more business than we ever had in our history, including the busy war years. Every unit of rolling stock which had any service in it and every unit of fixed property which had any service usefulness, was retained in service. I believe we would

be criticized if we were to take out of service property which had a useful value, merely to get into our accounts a figure which would compare with what the figures should be under depreciation accounting.

Mr. JACKMAN: Under the system I am proposing, you would not have to take it out of service.

Mr. COOPER: I have given you my reasons. I did not want the record to stand as it was. I did not think it was fair to the railway. I apologize for taking up the time of the committee.

Mr. FULTON: May I ask you one question before you close that part of the discussion. Apart from the question of depreciation accounting, would you care to indicate or are you prepared to indicate, how substantial a change would be involved if the Canadian Pacific were to adopt your recommendations with respect to reclassification of the accounting system? Is it a substantial change or is it a relatively minor one?

Mr. COOPER: I have always been regretful of getting into a discussion of the Canadian Pacific accounts, but it is my belief—after all, Mr. Leslie, the vice-president of the Canadian Pacific and I discuss many things together and our discussions are on a very friendly, frank basis—

Mr. FULTON: I would not ask you to do more than express an opinion.

Mr. COOPER: It is my conviction that, in a very large measure, the Canadian Pacific follows the Interstate Commerce Commission accounting. The only difference of which I can think is this; if you look at their income statement, they show gross earnings of $318,000,000 and working expenses, including taxes, of $295,000,000. I should like Mr. Jackman to see this.

Mr. JACKMAN: What page is that?

Mr. COOPER: Page 7 of the Canadian Pacific annual report, 1947. They show their gross earnings as $318,000,000, working expenses, including taxes, $295,000,000; net earnings, $22,000,000.

Do you mind turning to page 41 of the report? In the second bracket on that page, under the heading, "Total traffic", they show operating revenues, $321,000,000, which you will notice is different from what they show on page 7. They show their operating expenses, $279,000,000, which is different from what they show on page 7. Their net operating revenue is shown as $41,000,000 as compared with net earnings of $22,000,000 on page 7. The $41,000,000 is comparable with ours. It is my belief that the $41,000,000 on page 41 is stated according to the Interstate Commerce Commission rules and regulations.

Mr. JACKMAN: You believe they carried it down in an income account on page 7, but it may be after taxes?

Mr. COOPER: It says so; that is where we differ. They charge income taxes as working expenses.

Mr. JACKMAN: They are, so far as the shareholder is concerned.

Mr. COOPER: If you can convince me that the income tax they pay out on their steamship operations, their hotel operations and their other income, is an operating or working expense of the railway, I throw up my hands.

Mr. FULTON: In other words, one of the differences would be the C.P.R. would have to set up separate accounts for each of their classes of operation; that would be one of the results?

Mr. COOPER: No, sir, the difference would be they would take out of their revenues and expenses, as shown on page 7, taxes, joint facility rents and equipment rents.

If you look at our report on page 4, you will see we show operating revenues and operating expenses. Then, we show below the taxes, equipment rents, joint facility rents, so we are excluding them from operating expenses. They include them in their working expenses.

In 1932, Mr. C. D. Howe, who was then Minister of Transport, appointed a committee to study uniform classifications for Canadian railways. It was generally agreed we would follow the broad basis of the Interstate Commerce Commission. The Canadian Pacific felt that taxes, joint facility rents and equipment rents should be included in working expenses and I objected. No other railroad on the North American continent does it. That is the main difference between us.

The Chairman: Is that O.K., gentlemen? Now, there are two more paragraphs regarding the Canadian National Railways. Are there any questions with regard to Canadian National West Indies Steamships company? That is on page 15, Mr. Hazen. Mr. Jackman, have you any questions?

Mr. Jackman: I have not questions. I would like to say to Mr. Cooper, that I do not see anything very difficult about the C.P.R. dual presentation of accounts. One is something for the shareholders who are interested in the net available company dividend and the other is an account which will interest the railway people; and that is the one which is uniform, as you suggested, or thought, with the I.C.C.

Mr. Cooper: I did not initiate this discussion on uniformity.

Mr. Jackman: However, I merely make that observation.

The Chairman: Is the report adopted? It is moved by Mr. Lafontaine and seconded by Mr. McCulloch that we adopt the report.

Carried.

Gentlemen, that takes us up to the T.C.A. and we expect to go on with the T.C.A. tomorrow.

Now, Mr. Fulton has just asked me if he might ask a question of the company. He has not been here all the time and I want to be fair to him. He would like to ask a question about some safety devices and I would like to have him get his questions on the record and perhaps the company can furnish him with the answers or give him the information right now.

Mr. Fulton: My question is directed to Mr. Vaughan or to Mr. Walton. There have been investigations going on under the direction of the Board of Transport Commissioners and the Canadian National Railways as to accidents in British Columbia caused by landslides, one of which caused the loss of five lives and the other two. They are investigations concerning the feasibility of installing slide fences and devices which would warn trains that something was on the track in the winter time.

Mr. Vaughan: That matter has been given very serious consideration by us. I think Mr. Walton can report more in detail on that matter.

Mr. Walton: We have been much concerned about the slide conditions in the mountains. They have been particularly bad over the last few months. One accident to which Mr. Fulton referred caused the loss of five lives. I would like to mention in passing that three of the fatalities were trespassers on the train. We have been conducting investigations, and Mr. Vaughan has approved the expenditure, for equipping the line between Red Pass junction and Jackman, a distance of about twenty-three miles, with automatic block signals; also between Spence's Bridge and Hope, roughly ninety-one miles, with automatic block signals. Along with that will go a trial installation of slide protection fences about which some development work is necessary. There will also be considerable investigation required as to obtaining power to operate the signals and other details, and those matters are being worked on. The expenditure

has been authorized and as quickly as we can go forward with the matter these protection devices will be set up and we feel they will go a long way toward greater protection on that part of the railroad where these slide conditions have been present and no doubt will to some measure continue for a long time to come.

Mr. FULTON: Are you in a position to say what expenditure has been authorized?

Mr. WALTON: It will run very close to a million dollars when it is completed. That will not be spent this year. The delivery of the material and the actual erection of the signals will run into next year. The contemplated expenditure for these mileages which I have mentioned will, in round figures, be about $1,000,000.

Mr. FULTON: Will a substantial part of the work be completed before next winter?

Mr. WALTON: I doubt it will be possible to secure the material with the lag in the supply of material of that kind; but we will push the matter all we can.

Mr. JACKMAN: I would like to suggest in connection with the Hudson Bay Railway—I am not asking that the manager should be brought before us—but I think it would be advisable if we did, as we did last year, table the accounts. It amounts to about two sheets of paper.

Mr. COOPER: If we give them to the clerk and have them included in the proceedings, will that be satisfactory?

Mr. JACKMAN: Yes.

(Agree—See appendix A.)

The CHAIRMAN: Gentlemen, on behalf of the committee I want to thank President Vaughan and his officials for their kind courtesy and the way in which they have answered all our questions and I hope that we will see them again next year and that they will be in good health—

Mr. JACKMAN: And in good wealth.

The CHAIRMAN: —and as generous as they have been this year. I think our committee, which is composed of a very fine group of men, have tried to be fair and courteous to the witnesses.

Mr. JACKMAN: I have pleasure in seconding your remarks, Mr. Chairman, and I would add, "in health and in wealth".

Mr. VAUGHAN: Thank you, Mr. Chairman and gentlemen. We appreciate your patience.

The committee adjourned.

APPENDIX A

DEPARTMENT OF TRANSPORT

Hudson Bay Railway

Consolidated Income Account Fiscal Year 1947-1948 and Fiscal Year 1946-1947—Not Final

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Railway Operating Revenues		
Freight	$ 836,293.00	$ 351,726.50
Passenger	103,066.00	77,934.38
Mail	2,848,00	2,585.53
Express	31,361.00	13,287.25
Telegraphs	9,029.00	8,340.82
All Other	68,903.00	33,970.97
Total Operating Revenues	$1,051,500.00	$ 487,845.45
Railway Operating Expenses		
Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39
Maintenance of Equipment	69,347.00	67,492.60
Transportation	453,278.00	289,342.97
Miscellaneous Operations	27,569.00	19,264.66
General	33,907.00	30,024.19
Total Operating Expenses	$1,049,943.00	$ 808,196.81
Net Operating Revenue	$ 1,557.00	$ 320,351.36
Ratio	99·85%	165·67%
Railway Tax Accruals	$ 3,995.00	$ 3,582.79
Railway Operating Income	$ 2,438.00	$ 323,934.15
Equipment Rentals—Payable		
Hire of Freight Cars—Debit	$ 135,500.00	$ 54,527.46
Rent for Locomotives	92,919.00	58,052.10
Rent for Passenger Train Cars	16,670.00	15,711.20
Rent for Work Equipment	33,308.00	27,410.82
Total Equipment Rentals	$ 278,397.00	$ 155,701.58
Rent Income		
Joint Facility Rents—Credit	$ 12,785.00	$ 12,610.00
Miscellaneous Rent Income—Credit	146.00	129.74
	$ 12,931.00	$ 12,739.74
Net Deficit	$ 267,904.00	$ 466,895.99

Railway Operating Revenues and Expenses

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Railway Operating Revenues		
Freight	$ 836,293.00	$ 351,726.50
Passenger	103,066.00	77,934.38
Baggage	530.00	644.77
Sleeping Car	9,645.00	4,675.06
Mail	2,848.00	2,585.53
Express	31,361.00	13,287.25
Other Passenger-train	325.00	716.22
Milk	373.00	818.52
Switching	835.00	542.00
Dining and buffet	....	2,391.10
Restaurants and Boarding Cars	22,022.00	13,141.44
Station, train and boat privileges	828.00	662.07
Storage-Freight	43.00	32.61
Storage-Baggage	4.00	....
Telegraphs	9,029.00	8,340.82
Power	447.00	491.09
Rents of buildings and other property	7,973.00	3,677.69
Miscellaneous	25,878.00	6,178.40
Total Operating Revenues	$1,051,500.00	$ 487,845.45
Railway Operating Expenses		
Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39
Maintenance of Equipment	69,347.00	67,492.60
Transportation	453,278.00	289,342.97
Miscellaneous Operations	27,569.00	19,264.66
General	33,907.00	30,024.19
Total Operating Expenses	$1,049,943.00	$ 808,196.81
Net Revenue	$ 1,557.00	*$ 320,351.36*

Railway Operating Expenses

Maintenance of Way and Structures		
Superintendence	$ 38,409.00	$ 34,866.57
Roadway maintenance	57,756.00	66,584.02
Bridges, trestles and culverts	10,707.00	5,851.13
Ties	43,866.00	38,209.61
Rails	827.00	*397.31*
Other Track material	3,935.00	2,518.08
Ballast	35,762.00	27,001.15
Track laying and surfacing	187,244.00	153,236.50
Fences, snowsheds and signs	769.00	182.57
Station and office buildings	9,320.00	5,941.18
Roadway buildings	3,460.00	3,810.60
Water stations	5,338.00	3,016.62
Fuel stations	71.00	211.32
Shops and enginehouses	4,167.00	3,580.88
Telegraph and telephone lines	8,203.00	7,821.27
Signals and Interlockers	....	....
Roadway machines	3,505.00	6,894.70
Small tools and supplies	23,009.00	19,420.33
Removing snow, ice, and sand	33,922.00	27,295.82
Maintenance Jt. tracks, yards, etc., Dr.	2,219.00	2,163.06
Maintenance Jt. tracks, yards, etc., Cr.	*6,805.00*	*6,610.00*
Stationery and Printing	154.00	....
Injuries to persons	4.00	474.29
Total Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39

RAILWAY OPERATING EXPENSES—*Concluded*

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Maintenance of Equipment		
Superintendence	$ 4,507.00	$ 4,356.68
Shop machinery—Repairs	951.00	2,999.31
Power Plant machinery—Repairs	....	....
Steam locomotives—Repairs	48,858.00	31,468.52
Freight-trains cars—Repairs	3,594.00	1,824.60
Passenger-Train cars—Repairs	1,742.00	15,992.90
Work equipment—Repairs	6,378.00	7,302.01
Other Expenses	3,317.00	3,548.58
Total Maintenance of Equipment	$ 69,347.00	67,492.60
Transportation Rail Line		
Superintendence	$ 23,444.00	$ 22,463.28
Dispatching trains	5,442.00	4,759.55
Station employees	33,286.00	24,544.77
Station supplies and expenses	9,706.00	7,618.82
Yardmasters and yard clerks	....	....
Yard conductors and brakemen	....	....
Yard switch and signal tenders	....	....
Yard enginemen	....	....
Yard switching fuel	....	....
Water for yard locomotives	....	....
Other supplies for yard locomotives	....	....
Enginehouse expenses—Yard	....	....
Yard supplies and expenses	....	....
Operating joint yards and terminals—Dr.	19,537.00	13,750.24
Train enginemen	48,172.00	27,381.73
Train fuel	156,661.00	83,982.96
Water for train locomotives	31,307.00	28,918.85
Lubricants for train locomotives	259.00	149.73
Other supplies for train locomotives	19.00	18.53
Enginehouse expenses—Train	8,376.00	6,735.13
Trainmen	60,658.00	35,596.65
Train supplies and expenses	29,146.00	29,048.88
Operating sleeping cars	773.00	924.57
Drawbridge operation	27.00	8.05
Stationery and printing	687.00	912.82
Clearing wrecks	18,764.00	2,038.10
Loss and damage—Freight	1,460.00	389.14
Injuries to Persons	5,535.00	101.17
Damage to livestock on right of way	19.00	....
Total transportation Rail Line	$ 453,278.00	$ 289,342.97
Miscellaneous Operations		
Dining and Buffet Service	$	$ 1,674.56
Restaurants and Boarding Cars	26,446.00	16,878.93
Producing power sold	1,123.00	711.17
Total Miscellaneous Operations	$ 27,569.00	$ 19,264.66
General		
Salaries and expenses of general officers	$ 12,000.00	$ 12,000.00
Law expenses	....	....
Pensions	21,907.00	18,024.19
Total General	$ 33,907.00	$ 30,024.19

APPENDIX B

Answers to questions by Mr. A. M. Nicholson.

(*a*) Collection of Province of Quebec meal tax and commission paid to the Railway;

(*b*) Tax on meals, sale of tobacco and soft drinks in restaurants and on trains—total collection, $21,313;

(*c*) Comparison of mail revenues for last 10 years.

	Average miles of road operated	Ratio of miles operated	Mail Revenue	Ratio of Mail Revenue
C.N.R.				
1938	21,950	56·0%	$2,975,367	45·4%
1939	21,936	56·1	3,008,573	45·3
1940	21,878	56·0	3,023,945	45·6
1941	21,793	56·0	3,242,581	46·8
1942	21,769	55·9	3,402,128	47·1
1943	21,769	56·1	3,459,543	46·6
1944	21,770	56·1	3,605,105	47·1
1945	21,769	56·1	3,633,123	47·4
1946	21,741	56·1	3,710,774	47·1
1947	21,735	56·1	3,830,045	47·8
C.P.R.				
1938	17,186	44·0%	$3,582,316	54·6%
1939	17,176	43·9	3,631,275	54·7
1940	17,159	44·0	3,602,544	54·4
1941	17,151	44·0	3,680,071	53·2
1942	17,077	44·1	3,826,555	52·9
1943	17,035	43·9	3,957,531	53·4
1944	17,030	43·9	4,041,284	52·9
1945	17,029	43·9	4,037,474	52·6
1946	17,037	43·9	4,170,574	52·9
1947	17,034	43·9	4,172,010	52·2

APPENDIX C

Answer to question by Mr. H. R. Jackman as to number of passengers killed per 100,000,000 passenger miles on U.S. Class I Roads.

1940	·337
1941	·133
1942	·205
1943	·298
1944	·260
1945	·155
1946	·159
1947	·1415

APPENDIX D

Answer to question by Mr. Hatfield.

Why has the rate on potatoes, Charlottetown to Detroit, been so much higher than to Windsor, Ont.

A rate of 46 cents per 100 lbs. of potatoes from Charlottetown to Windsor has been in effect since 1920 and has always been on a low basis in order to encourage movement within Canada. The only increase in the domestic rate since 1920, has been the recent increase of 21 per cent which raises the rate to 56 cents.

The basic rate of 62 cents per 100 lbs. of potatoes from Charlottetown to Detroit, U.S.A., has been subjected to the four U.S. increases and will now be 92 cents, this rate being on the same basis as rates within the U.S.A. The Interstate Commerce Commission will not permit any railway to publish a lower rate from a point in Canada to a point in the U.S. than American carriers are permitted to publish within the U.S. itself.

SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, APRIL 22, 1948

TRANS-CANADA AIR LINES—ANNUAL REPORT (1947) AND AUDITORS' REPORT

Second Report—(Estimates Referred)

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, Trans-Canada Air Lines;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

REPORT TO HOUSE

THURSDAY, April 22, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1949, as referred on April 15, 1948, and approves of same, viz:

Vote 502—Maritime Freight Rates Act,
Canadian National Railways;

Vote 503—Maritime Freight Rates Act,
Railways other than Canadian National;

Vote 557—Prince Edward Island Car Ferry and Terminals,
Deficit 1948.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

11235—1½

MINUTES OF PROCEEDINGS

THURSDAY, April 22, 1948.

The Sessional Committee on Railways and Shipping met at eleven o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Fulton, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Pouliot, Warren.

In attendance:

From *Trans-Canada Air Lines:* Messrs. G. R. McGregor, President, W. F. English, Vice-President—Operations.

From *Canadian National Railways:* Messrs. Cooper, Thompson, May.

From *Department of Transport:* Air Vice-Marshal A. T. Cowley, Messrs. K. Main and Thornton.

From *Department of Reconstruction and Supply:* Mr. C. P. Edwards, Deputy Minister, and O. A. Matthews of George A. Touche and Company, Auditors.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply was present, as was his Parliamentary Assistant, Mr. George J. McIlraith, M.P.

The Chairman introduced Mr. McGregor to the members of the Committee.

Right Honourable C. D. Howe made a statement respecting Mr. McGregor, who was elected President on February 1, 1948, succeeding Mr. H. J. Symington, C.M.G., K.C.

The Committee began and concluded its examination of the Annual Report (1947) of the Trans-Canada Air Lines.

Mr. G. R. McGregor was called. He read the report and was examined thereon.

The Minister read into the record an article published in *Time* magazine relating to U.S. air lines operations for 1947.

On motion of Mr. Lafontaine, the Trans-Canada Air Lines Annual Report (1947) was adopted.

Mr. S. M. May tabled information requested by Mr. Jackman. It was agreed to incorporate same in the minutes of evidence.

Mr. Nicholson congratulated Mr. Thompson for his preparation of the Trans-Canada Air Lines Report.

At 1 o'clock the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock. The Vice-Chairman, Mr. McCulloch, presided.

Members present: Messrs. Bourget, Emmerson, Fulton, Hatfield, Hazen, Hlynka, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Mutch, Nicholson, Reid and Warren.

In attendance: Messrs. O. A. Matthews, G. R. McGregor, W. F. English, T. H. Cooper, W. S. Thompson, C. P. Edwards, A. T. Cowley, T. K. Main and W. A. Thornton.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply, was present and participated in the discussion.

The Committee began and concluded its examination of the Auditors' Report of the Trans-Canada Air Lines (1947).

Mr. O. A. Matthews was recalled and examined.

Messrs. McGregor and English supplied answers.

On motion of Mr. Nicholson, the Auditors' Report of the Trans-Canada Air Lines (1947) was adopted.

The witnesses were retired.

Mr. Howe thanked the members of the Committee.

At 4.50, the Committee adjourned at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

April 22, 1948.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The Chairman: Gentlemen, we have a quorum. We are to take up today Trans-Canada Air Lines. First, I should like to introduce to the members of the committee the President, Mr. G. R. McGregor. I think I shall introduce each member personally to Mr. McGregor.

Now, Gentlemen, I believe it is customary to have the president read the report. If that is O.K. we will have the report read and take the questions afterwards.

Mr. McGregor, will you read the report?

Mr. G. R. McGregor (President, Trans-Canada Air Lines):

TRANS-CANADA AIR LINES

Montreal, March 10, 1948.

To the Right Honourable, the Minister
of Reconstruction and Supply, Ottawa.

Sir:—The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1947.

This was a period of growth in Canadian air transport. Within North America, T.C.A.'s route miles increased by 1,248 to a total of 7,759, and six more cities were included as points of call. Over 1,380,000 more revenue miles were flown in 1947 than in 1946. Canada's transcontinental air route was shortened. A more extensive use of larger aircraft increased the Air Line's capacity for public service. In an expanding Atlantic schedule, T.C.A. crossed the ocean more than 900 times, carrying heavy loads of passengers, mail and cargo. Service to Ireland was commenced with the inclusion of Shannon as a point of call.

The service extensions resulted in a 34% increase in carrying capacity on North American routes and a 9·6% reduction in cost per available ton mile of transport. The wider North American work was done with over two hundred less staff than in 1946, while the total labour force required for both domestic and greatly expanded Atlantic operations was almost unchanged.

Although traffic in 1947 was heavier than in any previous year and operational efficiency increased, revenues were not sufficient to offset the mounting expenses. This was due not only to the growth of Canada's air services, but also to the much higher cost of labour and materials, factors over which the Air Line had no control and which are common to air transport generally.

The number of passengers carried on North American services grew by 40% while passenger revenue increased by 30% during the year. But this type of traffic was unable to support, by itself, the greater economic require-

ments of main line operations. The Line flew with empty space in 1947, indicating the opportunity for a wider employment of air transport in the carriage of mail and cargo. While 33,483,544 ton miles of transport were available on the North American routes in 1947, a total of only 19,588,661 revenue ton miles or 58·5% were used as compared with 67·5% in 1946. In an effort to develop non-passenger load, T.C.A. is now organizing an air cargo service for business and industry.

T.C.A. opened the Great Lakes airway on July 1. This chain of new and improved airports supplanted the route north of the Lakes. All transcontinental flights were then scheduled through the Lakehead and Sault Ste. Marie, providing those cities with their first main line air service. The new airway reduces Toronto-Winnipeg flight time, is a better weather route, and possesses scenic beauty.

The service to Northern Ontario was maintained by a local operation between Toronto, North Bay, Porquis and Kapuskasing.

Winnipeg and Edmonton were brought within five hours of each other on July 1 and Saskatoon added to the Air Line network when a daily schedule commenced between those three cities. Direct connections with Great Lakes flights offered greater transport facility between Eastern and Western Canada.

July 1 also saw the inclusion of Medicine Hat and Swift Current in a daily transcontinental schedule. The Air Line is now providing a well-rounded prairie service.

A new international operation was inaugurated on April 1, with a service between Halifax, Yarmouth, Saint John and Boston. At the year end, T.C.A. was connecting Canada with United States cities by means of six well separated trans-border routes.

Daily flight frequency on the Pacific Coast was increased during the summer months to six between Victoria and Seattle and to twelve between Vancouver and Victoria.

During 1947, the Air Line assisted world authorities in the standardization of international practices, planned with the Department of Transport for improved airport and airway facilities at home, and instructed many young Canadians in the techniques of flight and its administration.

The Company maintained the operational standards that have earned the public's confidence.

TRANS-CANADA AIR LINES

	1947	1946
Results		
Operating Revenues	$15,297,346	$12,810,805
Operating Expenses	16,796,491	13,926,061
Operating *Deficit*	*$ 1,499,145*	*$ 1,115,256*
Interest on Capital Invested	261,897	154,368
Deficit	*$ 1,761,042*	*$ 1,269,644*

Operating revenues totalled $15,297,346, an increase of $2,486,541 or 19 per cent over the preceding year. Passenger revenues increased $2,403,400 or 30 per cent; cargo revenues increased $144,208 or 47 per cent; mail revenues increased $27,688 or 1 per cent; revenue from sales and services decreased $164,273 or 28 per cent; other revenues increased $75,518. Passenger revenue contributed 68 per cent of total revenue, mail revenue 25 per cent and cargo revenue 3 per cent.

Operating expenses totalled $16,796,491, an increase of $2,870,430 or 21 per cent over the previous year. Of this amount, an increase of $1,347,908 may be attributed to higher payroll charges. The general rise in price structure,

during 1947, affected the purchase of all T.C.A. materials, and this resulted in an increase of $1,128,541. In spite of these circumstances, the Company is able to report lower production costs per available ton mile of air service. Expenditures were carefully controlled and an efficient operation maintained. The charge to operating for accrued depreciation on aircraft and other property during the year amounted to $1,950,820.

The operating deficit for the year was $1,499,145.

Resulting from the 1945 amendments to the Trans-Canada Air Lines Act, 1937, the practice of charging operating expenses with 5 per cent interest per annum on invested capital, paid to the Canadian National Railways, was changed in 1946 so that interest payments were at the same rates as the Railway Company was called upon to pay on the advances to it by the Government for T.C.A. capital purposes. On this basis the 1947 charges amounted to $261,897.

After the payment of interest on capital there was a deficit of $1,761,042.

Statistical

Additional schedules, the greater carrying capacity of the fleet and intensified solicitation activities enabled the Air Line to serve passengers and shippers in larger numbers. Air mail volume alone remained unchanged.

Passengers

Revenue passengers carried on North American routes numbered 427,967 in 1947 as compared with 305,442 in 1946, an increase of 122,525 or 40 per cent. The average passenger journey, excluding charter service, was 420 miles, as compared with 510 miles in 1946, the decrease being due to a higher frequency of service on short Pacific Coast routes. Revenue passenger miles increased by 15 per cent. Revenue per passenger on scheduled services was $24.50 and per passenger mile 5·84 cents, as compared with $26.41 and 5·18 cents respectively in 1946.

In an effort to offset mounting material and labour costs, the Air Line was obliged to increase its passenger fares by 10 per cent in April. This followed similar action by the United States operators. It is not possible to calculate the influence of the increase upon traffic volume. A majority of the large United States carriers increased fares again in November, but T.C.A. did not.

T.C.A. assisted in the simplification of air travel regulations between Canada and the United States. By international agreement it was possible to eliminate many travel forms and to raise the standard of Customs and Immigration services.

Air Mail

Air mail volume was almost unchanged in 1947, with the Company flying 1,232,237 ton miles, as compared with 1,210,716 in 1946. There was some growth of this traffic toward the end of the year, but not enough to approach the Air Line's capacity for mail transport.

Air Cargo

Air express traffic grew steadily in 1947. Poundage totalled 1,439,814 as compared with 1,043,713 in 1946, an increase of 38 per cent. Ton miles rose from 380,557 to 543,307.

In August, the Company filed its first charter tariff and, with the availability of the larger fleet, several specialized cargo flights were operated before year end. Ton miles totalled 90,712.

A new type of cargo service was organized which will go into effect in 1948. In addition to carrying express shipments, the Air Line will handle commodities in volume at new low cargo rates.

Property and Equipment

Flight equipment as of December 31, 1947, consisted of:

Thirty Douglas DC-3 aircraft, 27 of which are equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horsepower, and three equipped with two Wright Cyclone engines, each of 1,200 horsepower.

Eleven Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horsepower.

The introduction of pressurized North Stars was delayed by production problems. However, at the end of the year three newly delivered aircraft were being prepared for domestic operations and used for pilot training. Planning for the first Canadian use of four-engined commercial equipment involved many changes in air line practices and in ground facilities.

All of the 10 and most of the 14-passenger Lockheed aircraft have been retired from service in favour of the 21-passenger DC-3's and the 40-passenger North Stars now in production. Some sales had been made of this older equipment.

The changing nature of the fleet required major adjustments in the maintenance and overhaul organization. All North Star servicing was assigned to Montreal, where domestic and overseas operations meet. Winnipeg remained the overhaul centre for the System.

Airport accommodation for the growing needs of air traffic continued to be a problem in 1947. At Victoria, Lethbridge and Saint John, N.B., use was made of renovated Air Force buildings. The Department of Transport began construction of a large terminal building at Toronto. The Company proceeded with a shop and office extension at Winnipeg.

New ticket offices were opened in Boston, Detroit, Hamilton and Sault Ste. Marie (Ontario). The Toronto office was moved to an improved location.

Routes

At December 31, 1947, Trans-Canada Air Lines was providing service—passenger, air mail and cargo—over nation-wide routes totalling 7,759 miles. This was an increase of 1,248 or 19 per cent over 1946. The routes operated are as follows:—

		Miles
Halifax—Victoria	(via Moncton and Lethbridge)	3,220
	(via Moncton and Calgary)	3,333
	(via Saint John and Calgary)	3,287
Sydney—St. John's, Newfoundland		523
Halifax—Sydney		201
Halifax—Boston (via Yarmouth and Saint John)		563
Halifax—Saint John		172
Toronto—New York		363
Toronto—Chicago (via London and Windsor)		468
Toronto—Kapuskasing (via North Bay and Porquis Jct.)		476
London—Cleveland		124
Lakehead—Duluth		178
Winnipeg—Edmonton (via Saskatoon)		735
Lethbridge—Edmonton (via Calgary)		301
Seattle—Victoria		103

Airway Facilities

The Department of Transport and the Company worked in close accord for the improvement of Canada's airport and airway facilities.

The Great Lakes airway was completed, providing a series of good airports, intermediate landing fields and radio ranges between Toronto, Sault Ste. Marie, the Lakehead and Winnipeg.

Extensive runway development took place at Toronto, Winnipeg, Calgary and Lethbridge to fit those airports for the handling of four-engined aircraft.

The Saskatoon airport was enlarged so that T.C.A. service could be provided to that city.

Installation of instrument landing equipment proceeded at a number of major airports, including Montreal, Toronto, Winnipeg, Saskatoon, Calgary, Lethbridge and Vancouver. The Company has collaborated with the Department of Transport in this program, which promises a marked reduction in flight delays due to weather.

The Air Line extended its system of very high frequency ground radio stations. These are static-free, insuring complete clarity of communication with aircraft. By year-end, the Line was operating twenty such stations from Newfoundland to Western Canada.

A new schedule of airport landing fee charges was issued by the Department of Transport in 1947. It called for large increases, particularly for four-engined aircraft, and has been a subject of discussion between T.C.A. and the Department.

Mr. Chairman, do you wish me to go through the Atlantic company now?

The CHAIRMAN: I think you might as well complete your whole statement, and then we will take it up paragraph at a time.

Mr. McGREGOR:

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED

On May 1, 1947, Trans-Canada Air Lines (Atlantic) Limited assumed responsibility for the operation previously provided by the Canadian Government Trans-Atlantic Air Service.

	May 1 to Dec. 31, 1947
RESULTS—	
Operating Revenues	$5,483,298
Operating Expenses	5,341,898
Operating Surplus	$ 141,400
Interest on Capital Invested	5,097
Surplus	$ 136,303

Operating revenues totalled $5,483,298, of which $3,912,070 represented passenger traffic, $735,013 air mail and $331,557 air cargo. Operating expenses totalled $5,341,898, leaving an operating surplus of $141,400. After the payment of interest on capital there was a surplus of $136,303.

The popularity of this overseas operation, equipped with North Star aircraft, ran high in 1947, and it is gratifying that even under the difficult circumstances represented by the transition to a larger scale service and the use of a new fleet it was possible to show an operating profit.

STATISTICAL

A basic schedule of one daily trip in each direction was maintained throughout the year. During the summer, as many as eleven round trips were operated each week. In all, T.C.A. made over 900 crossings. During the autumn there was a period of delayed operations resulting from severe weather and from certain equipment problems attending the introduction of the new type of aircraft.

Passengers

A total of 15,815 passengers crossed the Atlantic with T.C.A. during the last eight months of 1947, when the operation had full commercial status. 14,393 of these travelled on scheduled flights. The remaining 1,422 were largely immi-

grants from the United Kingdom, carried under a charter arrangement with the Province of Ontario. In addition, the Company sub-contracted with Transocean Air Lines for the carriage of 4,450 more immigrants to Ontario.

Throughout the year, westbound passenger traffic was of such large volume as to approach fleet capacity. Eastbound loads were much lighter.

A trans-Atlantic ticket office was opened at Prestwick for the convenience of Scottish passengers and a Visitors' Service Bureau was established in London for the assistance of T.C.A. passengers.

Air Mail

Trans-Atlantic air mail totalled 152,179 pounds between May 1 and December 31, 1947. In this case the flow was predominantly eastbound, T.C.A. receiving little mail load from the British Post Office.

Air Cargo

271,077 pounds of air express and 111,688 pounds of air freight were carried on the Atlantic service between May 1 and December 31.

In October, charges were substantially reduced and a special commodity rate offered for gift food parcels, resulting in a pronounced increase in cargo volume.

Property and Equipment

Six unpressurized North Star aircraft replaced the modified Lancasters previously in use. With almost four times the passenger capacity of their predecessors, these aircraft carried a very volume of overseas traffic.

At year end, three pressurized North Stars were being used for flight training.

Routes

The trans-Atlantic air route extends 3,313 miles between Montreal, Shannon, Prestwick (Glasgow) and London.

In 1947 service to the British Isles was rounded out with the scheduling of one stop weekly at Shannon, Ireland.

By including Sydney, Nova Scotia, in some flights, service to the Maritime Provinces was improved at reduced cost to travellers.

General

The self insurance fund increased by $610,457 during the year and now amounts to $2,124,730. The coverage includes aircraft and other equipment, also passenger, public, and employer liability on both domestic and overseas services. The premiums are treated as operating costs and the growth of the fund has been made possible by the substantial expenditures made by the Company in the interests of safety.

Personnel

Staff assigned to both companies totalled 4,393 at December 31, 1947. Although the T.C.A. widened its services during the past year it was able, through increased efficiency, to consolidate its working force.

During 1947, the Air Line continued the heavy training programme required to equip staff for the responsibilities of larger aircraft and the developing scale of Canadian air transport. T.C.A.'s employees today constitute one of the most efficient groups in the aviation industry.

Inter-airline Agreements

Mutually advantageous arrangements were made with other air lines. The Company organized and managed an international hotel at Goose Bay, in Labrador, for the passenger convenience of several trans-Atlantic operators. Agreements were made with Scottish Aviation, British Overseas Airways Corporation, and United Air Lines for the ground handling of T.C.A.s flights at Prestwick, London and Boston respectively. The subcontract under which Canadian Pacific Air Lines operates between Whitehorse and Fairbanks was extended for another year.

Four-engined Aircraft

It was a disappointment that unforeseen delays in production postponed the opening of North Star service across the continent. This four-motored, 40-passenger aircraft has characteristics of size, speed and comfort that will increase the popularity of air transportation. Travel time between Montreal and Vancouver will be reduced to fourteen hours westbound and thirteen hours eastbound including station stops—five hours less than at present.

An early version of the North Star was employed on the Atlantic during most of 1947. The more advanced model will be superior in many respects. Cabin pressurization, for example, will insure travel comfort at all altitudes. Twenty of these aircraft are in process of delivery by Canadair Limited, at Montreal.

Pressurized North Star aircraft will be placed in service on both the overseas and domestic routes as rapidly as they become available.

Future Service

Progress in 1948 will be measured not so much by route extension as by improvements in speed, comfort and capacity. Canada's second overseas air operation, however, is expected to begin in 1948 with a North Star service to Bermuda.

With greater capacity and service, the main problem facing the Company is the utilization of the aircraft space not required by passenger traffic. T.C.A. will continue the development of Canada's first nation-wide air cargo service at rates which will, it is believed, make possible volume shipments by air. Efforts will be continued to develop with the Post Office Department a satisfactory basis under which first class mail can be carried by air where he public would gain by the quicker delivery thus afforded. The facilities of the Air Line will also be offered to the Defence Services and other branches of government for the essential transport of persons and equipment. Special efforts will be made to ease the problem of seasonal traffic fluctuations which, in Canada, permit the full utilization of equipment and staff during only four months of the year.

Mr. H. J. Symington, C.M.G., K.C.

The retirement of Mr. H. J. Symington, C.M.G., K.C., from the Presidency of Trans-Canada Air Lines was a source of general regret. No man has contributed more to Canadian air transport. Mr. Symington led T.C.A. from small beginnings to a position of prominence in the air transport industry. At the same time, he gave his energies to the rationalization of world avation.

Trans-Canada is fortunate in retaining Mr. Symington as a member of its Board of Directors.

The Staff

Employee relationships are of sound character. To all members of the staff, the Directors extend their sincere appreciation. Trans-Canada Air Lines owes its reputation to their loyalty and effort.

CONSOLIDATED BALANCE SHEET AT 31st. DECEMBER, 1947.

ASSETS

Current Assets:			
Cash		$ 578,211.41	
Working Fund Advances		61,506.91	
Special Deposits		5,106.39	
Accounts Receivable		2,517,254.16	
Traffic Balances Receivable		740,777.29	
Balances Receivable from Agents		120,330.14	
Material and Supplies		2,834,793.84	
Other Current Assets		96,758.35	$ 6,954,738.49
Deferred Charges:			
Prepaid Insurance and Rents		$ 43,534.31	
Research and Development Expense		31,465.06	
Other Deferred Charges		53,205.83	128,205.20
Insurance Fund			2,124,730.69
Investments in Affiliated Companies			11,961.72
Capital Assets:			
Property and Equipment	$14,700,574.15		
Less Accrued Depreciation	*5,992,874.67*	$ 8,707,699.48	
North Star M2 Equipment		12,858,963.62	21,566,663.10
			$30,786,299.20

LIABILITIES

Current Liabilities:			
Audited Accounts Payable		$ 1,599,899.95	
Accrued Accounts Payable		2,006,512.51	
Traffic Balances Payable		296,226.12	
Air Travel Plan Deposits		598,400.00	
Salaries and Wages		378,511.31	
Other Current Liabilities		852,082.56	
Canadian National Railways Advance for Deficit		1,000,000.00	
Canadian National Railways Current Accounts		303,114.36	$ 7,034,746.81
Reserves:			
Insurance		$ 2,124,730.69	
Inventory		100,000.00	
Overhaul—North Star M1		296,500.00	2,521,230.69
Capital Stock:			
Common Stock Authorized and Subscribed–Par value $25,000,000			
Common Stock Issued—Par Value		$23,000,000.00	
Less Amount not paid in		*400,000.00*	22,600,000.00
Profit and Loss:			
Surplus 1st. January, 1947		$ 255,061.23	
Deficit Year 1947, Trans - Canada Air Lines	*$ 1,761,042.84*		
Surplus from 1st. May, 1947, Trans-Canada Atlantic Service	136,303.31	*1,624,739.53*	*1,369,678.30*
			$30,786,299.20

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st. December, 1947, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st. December, 1947, and that the relative Income Accounts for the year ended the 31st. December, 1947 are correctly stated.

10th. March, 1948.

GEORGE A. TOUCHE & Co.,
Chartered Accountants.

INCOME ACCOUNTS

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946		Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		Operating Revenues:	
$10,450,523.53	$ 8,047,123.58	Passenger	$ 3,912,069.71
3,808,197.01	3,780,508.72	Mail	735,013.40
449,447.29	305,238.69	Express and Cargo	331,556.59
84,912.12	72,946.77	Excess Baggage	19,849.62
81,905.29	18,353.46	Charter	417,763.00
422,361.17	586,633.88	Incidental Services—Net	67,045.90
$15,297,346.41	$12,810,805.10	Total	$ 5,483,298.22
		Operating Expenses:	
$ 3,955,603.04	$ 3,345,973.59	Flight Operations	$ 1,246,662.09
1,344,600.53	1,328,949.04	Flight Equipment Maintenance	612,521.57
1,785,166.57	1,388,635.49	Flight Equipment Depreciation	328,361.97
3,499,835.02	2,797,122.41	Ground Operations	991,997.91
1,933,883.61	1,516,021.82	Ground and Indirect Maintenance	691,009.76
165,652.97	125,776.33	Ground Facilities Depreciation	13,375.22
1,141,972.85	1,050,165.30	Passenger Service	367,766.02
1,779,923.21	1,404,828.43	Traffic and Sales	618,911.53
382,817.06	220,758.29	Advertising and Publicity	167,075.70
869,225.94	765,718.39	General and Administrative	307,078.13
62,188.85	17,878.08	Miscellaneous Income—Net Credit	2,861.71
$16,796,491.95	$13,926,061.01	Total	$ 5,341,898.19
$ 1,499,145.54	$ 1,115,255.91	Operating Deficit or Surplus	$ 141,400.03
261,897.30	154,368.48*	Interest on Capital Invested	5,096.72
$ 1,761,042.84	$ 1,269,624.39	Deficit or Surplus	$ 136,303.31

* Charged to Surplus—shown here for comparative purposes.

STATISTICAL DATA

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946		Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
7,759	6,511	Route Miles Operated	3,313
15,543,485	14,162,377	Plane Miles Flown—Revenue	2,386,709
472,649	1,101,908	Plane Miles Flown—Training	51,978
671,514	600,385	Plane Miles Flown—Other Non-Revenue	117,725
427,967	305,442	Revenue Passengers Carried	15,815
420	510	Average Passenger Journey—Miles	3,134
62	76	Percentage of Passenger Occupancy	73
1,232,237	1,210,716	Mail Ton Miles	251,562
634,019	380,557	Express and Cargo Ton Miles	508,598
130,086	132,935	Excess Baggage Ton Miles	22,410

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946			Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		5100	Flight Operations	
$ 1,383,474.50	$ 1,071,407.39	23	Captains and First Officers ..	$ 214,553.56
—	—	24	Other Flight Personnel	125,396.93
187,380.11	141,806.96	28	Training—Salaries and Expenses	20,904.04
158,311.75	182,959.04	36	Travel and Incidental	33.807.63
1,940,561.35	1,732,313.93	45	Aircraft Engine Fuel and Oil	702,526.77
40,008.30	36,263.81	53	Other Supplies	10,077.66
240,006.85	176,007.07	55	Flight Equipment Insurance	138,618.66
5,368.01	5,215.39	67	Clearance Fees	389.07
492.17	—	74	Other Expenses	387.77
$ 3,955,603.04	$ 3,345,973.59			$ 1,246,662.09
		5200	Flight Equipment Maintenance	
$ 278,015.03	$ 327,591.62	25	Aircraft—Labour	$ 97.781.10
228,755.51	172,386.17	26	Aircraft Engine—Labour ...	135,959.80
95,933.00	93,004.35	27	Aircraft Other Equipment—Labour	31,209.39
316.616.04	373,006.80	46	Aircraft—Material, etc.	97,039.37
359,579.73	315,995.01	47	Aircraft Engine — Material, etc.	186.166.05
65,701.22	46.965.09	48	Aircraft Other Equipment—material, etc.	64,365.86
$ 1,344,600.53	$ 1,328,949.04			$ 612,521.57
		5900	Flight Equipment Depreciation	
$ 1,186,435.43	$ 856.986.76	75	Aircraft	$ 205.483.38
188,843.82	326,014.30	76	Aircraft Engines	51,670.84
263,003.74	75,607.14	77	Aircraft Spare Parts	36,607.73
146,883.58	130,027.29	77	Aircraft Other Equipment ..	34,600.02
$ 1,785,166.57	$ 1,388,635.49			$ 328,361.97
		6100	Ground Operations	
$ 253,379.95	$ 234,179.95	21	General Officers and Superintendents	$ 81.191.10
129,577.11	102,071.47	22	Station Managers and Assistants	18,613.85
33,306.51	40,887.16	28	Training—Salaries	14,023.75
556,710.89	424,317.16	29	Ground Service Employees—Mechanical	199,383.37
324,179.76	233,309.12	29	Ground Service Employees—Cargo	44,320.88
135,049.51	113.258.50	30	Flight Control Officers......	38.285.87
249,125.68	191,953.68	30	Radio Operators	—
117,563.11	94.279.83	30	Teletype Operators	6,252.49
251.919.11	235,997.42	35	Other Employees	54,933.54
154,149.24	162,172.29	36	Travel and Incidental	54,600.51
189,511.51	233,160.10	37	Telephone, Telegraph and Teletype	21.631.25
99.809.92	77.707.92	38	Light, Heat Power and Water	7,584.42
143,437.54	113,218.33	39	Express Expenses	94,208.16
70,725.01	53,364.84	40	Agency Services and Joint Facilities	8.536.10
215.433.14	54,512.26	43	Other Services	68.816.63
313,153.77	179,488.04	44	Airport, Building and Office Rentals	124,852.99
83,528.42	50,788.83	49	Servicing Supplies	74,292.17
76,994.83	103,985.36	50	Stationery, Printing and Office Supplies	22,107.46
42,770.65	41,046.38	53	Other Supplies	5,078.75
102.00	523.97	64	Memberships	—
59,407.36	56,889.80	74	Other Expenses	47,284.62
$ 3,499,835.02	$ 2,797,112.41			$ 991,997.91

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946			Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		6200	Ground and Indirect Maintenance	
		21	General Officers and Super-	
			intendents	$ 32,400.34
$ 107,735.14	$ 83,379.82	22	Maintenance and Stores	
			Supervision	122,696.41
283,357.14	254,678.82	27	Equipment and Facilities—	
			Labour	38,194.14
139,559.68	85,257.68	28	Training—Salaries	9,327.53
60,734.45	53,526.92	28	Unallocated Shop Labour	35,612.20
192,449.66	121,495.34	29	Building Attendants	38,702.13
149,401.48	138,567.00	31	Stores Employees	50,117.55
128,017.42	98,335.86	35	Engineering Employees	88,502.21
207,442.67	122,477.39	35	Other Employees	122,293.16
202,473.07	142,957.40	36	Travel and Incidental	25,723.85
90,657.87	50,187.98	37	Telephone and Telegraph	12,099.43
10,156.65	15,959.94	38	Light, Heat, Power and	
45,330.41	36,134.38		Water	8,298.27
		44	Building and Office Rentals	10,209.70
6,847.68	2,563.52	48	Equipment and Facilities—	
184,267.96	137,190.42		Material, etc.	46,200.40
104,052.93	95,802.99	49	Shop Supplies	29,338 85
29,296.43	27,936.70	50	Stationery, Printing and Of-	
10,963.24	11,512.73		fice Supplies	12,568.97
6,553.34	39,501.99	53	Other Supplies	4,553.86
82.16	129.50	54	Stores Inventory Adjustment	—
2,472.58	3,141.19	64	Memberships	2.84
14,861.67	*4,715.75*	74	Other Expenses	11,475.06
		80	Unallocated Shop Overhead	*7,307.14*
$ 1,933,883.61	$ 1,516,021.82			
				$ 691,009.76
		6900	Ground Facilities Depreciation	
		78	Ground Property and Equip-	
$ 165,652.97	$ 125,776.33		ment	$ 13,375.22
		6300	Passenger Service	
		21	General Officers and Super-	
$ 35,435.03	$ 28,873.39		intendents	$ 6,715.59
245,673.30	188,816.73	24	Stewards and Stewardesses	68,048.73
10,054.31	9,895.50	28	Training—Salaries	1,958.16
81,675.27	70,036.20	35	Other Employees	19,456.35
84,950.20	80,943.00	36	Travel and Incidental	18,379.04
20,148.00	16,133.57	43	Other Services	5,502.98
842.10	501.85	50	Stationery, Printing and Of-	
332,146.92	286,991.76		fice Supplies	575.99
115,114.76	113,077.64	51	Passenger Food Expense	54,749.84
96,530.10	163,995.74	52	Passenger Supplies	30,374.12
66,771.26	52,933.50	56	Passenger Liability Insurance	76,512.62
30.00	—	63	Interrupted Flight Expense	82,223.63
50,305.28	37,925.10	64	Memberships	—
2,296.32	41.32	67	Customs Expense	2,661.26
		74	Other Expenses	607.71
$ 1,141,972.85	$ 1,050,165.30			
				$ 367,766.02

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946		Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		6400 TRAFFIC AND SALES	
$ 62,985.67	$ 73,156.34	21 General Officers and Superintendents	$ 21,300.66
85,983.46	63,915.95	22 Traffic Supervision	31,808.54
20,116.92	38,735.47	28 Training—Salaries	5,897.38
1,267.76	1,568.64	29 Building Attendants	385.98
34,334.50	38,477.38	30 Teletype Operators	10,391.37
378,739.59	314,477.92	32 Ticketing Employees	118,100.89
372,416.96	319,744.23	32 Reservations Employees	115,698.80
42,027.13	31,217.23	33 Traffic Solicitors	17,357.08
127,930.26	122,317.29	35 Other Employees	42,188.17
85,319.46	99,665.83	36 Travel and Incidental	32,490.53
163,731.97	113,888.98	37 Telephone, Telegraph and Teletype	56,866.11
7,141.05	4,805.51	38 Light, Heat, Power and Water	2,376.56
189,169.20	51,053.48	40 Agency Services and Joint Facilities	92,097.72
16,862.29	3,009.74	43 Other Services	7,206.01
116,540.86	70,444.61	44 Office Rentals	38,870.54
63,301.92	39,700.02	50 Stationery, Printing and Office Supplies	21,179.99
2,297.40	19.13	53 Other Supplies	1,209.66
1,377.96	998.95	64 Memberships	247.77
8,378.85	17,631.73	74 Other Expenses	3,237.77
$ 1,779,923.21	$ 1,404,828.43		$ 618,911.53
		6500 ADVERTISING AND PUBLICITY	
$ 24,935.83	$ 16,973.92	59 Timetables and Distribution	$ 8,788.84
275,314.19	137,280.69	60 Advertising—Space	123,964.61
40,226.42	43,690.72	61 Advertising—Other	18,128.44
42,340.62	22,812.96	62 Promotional and Publicity Expense	16,193.81
$ 382,817.06	$ 220,758.29		$ 167,075.70
		6600 GENERAL AND ADMINISTRATIVE	
$ 87,424.63	$ 94,264.94	21 General Officers and Supervision	$ 29,089.17
225,556.17	194,863.44	35 Other Employees	74,500.52
24,192.20	26,619.43	36 Travel and Incidental	8,985.78
11,790.51	5,865.44	37 Telephone and Telegraph	4,572.15
37,999.99	50,000.00	39 Affiliated Company Charge	12,000.01
10,311.18	2,795.44	41 Professional Fees and Expenses	3,604.69
4,792.02	45.17	44 Office Rentals	2,361.56
25,581.87	18,138.80	50 Stationery, Printing and Office Supplies	7,014.41
25,380.81	30,216.84	55 Insurance—Public Liability and General	7,570.58
58,388.35	49,631.63	57 Insurance—Employees' Welfare	60,924.58
242,768.93	199,920.00	57 Pensions	72,405.87
4,938.14	10,835.00	64 Memberships	274.86
41,210.27	30,805.16	68 Taxes—Payroll	5,216.25
38,164.33	27,517.89	69 Taxes—General	7,760.64
30,726.54	24,199.21	74 Other Expenses	10,797.06
$ 869,225.94	$ 765,718.39		$ 307,078.13

CANADA'S TRANS-ATLANTIC AIR SERVICE

Canada's air service operating between Montreal and the United Kingdom became, by 1947, one of the principal international air operations.

Flying a basic schedule of one round flight daily, which will be increased to two in June, 1948, it has made Canada and the British Isles almost next-door neighbours. The 3,000 miles of ocean are bridged in fifteen hours.

Scheduled stops are made in England, Scotland and Ireland, at the airports of London, Prestwick (near Glasgow) and Shannon. At Montreal, the overseas flights are interlocked with the domestic air service. Some of the trans-Atlantic flights stop at Sydney, N.S.

Forty-passenger North Star airliners of Canadian manufacture cut days from the traditional Atlantic crossing. When post-war aircraft became available in 1947 and the air line took full commercial control of the service, T.C.A. was already a proven trans-Atlantic operator. In the years 1943-1947, T.C.A.'s log books recorded more than 1,900 crossings made for the Canadian Government Trans-Atlantic Air Service.

The CHAIRMAN: Thank you, Mr. McGregor. Would it now be in order, gentlemen, to start, let us say, at page 5 of the report and as we come to the various paragraphs, for you to ask any questions about them that you wish.

Mr. NICHOLSON: Before we commence the discussion, the members of the committee are all in agreement with the statement regarding Mr. Symington, and his contribution to aviation. Most people are pleased with the selection of the new president; and I wonder if the minister would care to make a statement as to that, for the purpose of the record.

Right Hon. Mr. HOWE: We feel very happy that we have a man in the organization who could assume the presidency of the Company. Mr. McGregor, before the war, was a senior official of The Bell Telephone Company. He had a splendid record in the war and flew fighters for most of the war period; and he joined the staff of the T.C.A. at the end of the war and became general traffic manager. He seemed to have exactly the experience that we required for the presidency. He has had a good business training and he knows the system thoroughly. We believe that the appointment of a young man from organization itself will be beneficial to the operation.

Mr. JACKMAN: Your headquarters are both at Montreal and Winnipeg, Mr. McGregor?

Mr. MCGREGOR: That is correct.

The CHAIRMAN: Perhaps I should say, Mr. McGregor, that there are some other members who have arrived since you began. I do not know if you know them or not, but we have now with us Mr. Warren, Mr. Moore, Mr. Hlynka and Mr. Fulton.

Mr. MCGREGOR: How do you do, gentlemen.

The CHAIRMAN: Now, gentlemen, is there anything with respect to page 5, or any general questions you would like to ask Mr. McGregor.

Mr. JACKMAN: Perhaps I might ask a general question. The business of the line has grown and yet our operating results, the net results, are not as satisfactory as in the previous years. Is it natural to this industry that the larger we grow the more deficits we are going to incur.

Mr. MCGREGOR: I do not think that should be taken as a trend. The growth in business was associated with the growth in the air lines; and, as you see, the unit costs went down. And it is true of any new service, that it seldom operates at a satisfactory capacity during its first twelve months of operation; and that condition extends quite frequently as long as two years.

The Air Line increased its service between Vancouver and Victoria greatly over 1946, during which it only operated that service for about six months; and as to the other new services which are mentioned, such as to Boston, it will take some time to develop traffic over air services which come as a complete stranger to the traffic potential at both ends.

Mr. JACKMAN: Then you feel that the loss is due to the new lines which were taken on during the year?

Mr. McGREGOR: No, but to the increases in expenditures related to the opening of new routes. Those lines will undoubtedly come up to the break-even traffic point in due course.

Right Hon. Mr. HOWE: It might be interesting to put on the record an article from *Time* giving the over-all result of air line operations for 1947, which was a disastrous year for all, partly due to bad weather in the spring, in fact, terrific weather, and to some bad experience with new equipment. If you do not mind, because it would only take a minute, it might be interesting for me to read this article into the records.

> For U.S. airlines, the question in 1947 was not how good but how bad, was business. Last week, as its annual reports came in, the industry added up the answer: the 16 scheduled domestic airlines had lost more than $20,000,000.
>
> Hardest hit was United Air Lines, Inc., which had a $1,086,961 profit in 1946. The rise in costs, poor weather early in the year, and the grounding of all the new DC-6's swelled United's loss to $3,747,000. American Airlines, Inc., biggest domestic carrier was also nipped by the grounding. Though its traffic (some 1·4 billion passenger miles) and gross revenues (nearly $82 million) were the highest in company history, its losses soared to $2,962,776 (from $375,943 in 1946).
>
> Only one major domestic line, Eastern Air Lines Inc., showed a profit; but its net of $1,259,196 was only one-quarter of the year before. Pan American Airways Corp., partly because of currency restrictions (for which it had to put aside a "very substantial reserve", turned in a profit of $2,960,000, slightly below 1946, despite a big expansion in operations.

That is the trend, and there is some more of it; but I think we must recognize that the United States, in 1947 operated under the same conditions which faced Trans-Canada Air Lines.

Mr. HAZEN: It was not very satisfactory was it.

Mr. McGREGOR: No.

Mr. HAZEN: You have spoken of bad weather, but there is no mention made as to bad weather in the president's report here, and there is no mention made of crashes as well.

Right Hon. Mr. HOWE: There were no crashes in Canada, but crashes anywhere in the world react on the business.

Mr. HAZEN: The more business you do, the more money you lose.

Mr. McGREGOR: That is quite erroneous.

Mr. HAZEN: That may be, but I think it should be explained. You did more business last year than you did the year before and had more operating revenue and so on, but on account of your expenditures, you had a greater deficit. I wonder if it is possible for you to increase the rates so that you would get bigger revenues to meet your expenses. Can that not be done? You mentioned 10 per cent, but that did not seem to get you very far.

Mr. McGREGOR: There is, obviously, a limit to what increased rates will produce because, as rates increase, there is naturally a depressive effect on utilization of the air lines resulting in low load factors. That is the sole secret

as to whether one operates in the red or in the black. If you are running filled, let us call it, above the critical percentage, the air line is operating profitably; but if you are below that figure, then you are in the red; and in the case of a growing service, for the reasons I mentioned before, the tendency is to operate at percentages of fill which are below that breakeven point.

Mr. HAZEN: As to these percentages of fill, the volumes shipments by air, you want to get additional business in addition to passengers.

Mr. McGREGOR: Exactly.

Mr. HAZEN: What kind of business have you in mind?

Mr. McGREGOR: Both airmail and cargo; I mean, mail transported by aircraft.

Mr. HAZEN: Cargoes of what kind?

Mr. McGREGOR: Every possible type of commodity short of coal and grain; for example flowers and lobsters, which are two items we are operating with now.

Mr. NICHOLSON: At what percentage of capacity did you operate last year.

Mr. McGREGOR: 58·5 per cent weight load factor, which compares with 67·5 per cent in the previous year. This should not be confused with the passenger load factor. The figure is about 62 per cent passenger load factor as compared to 76, for the year before. The rates are about 10 per cent higher than the American rates, on the average.

Mr. HAZEN: How do the loads on our lines compare with those on the American lines?

Mr. McGREGOR: In 1947?

Mr. HAZEN: I mean the amounts, I mean the quantities; are the American lines doing a bigger business in the way of cargoes than we do.

Mr. McGREGOR: Very much so.

Mr. HAZEN: Well, they have big deficits too.

Mr. McGREGOR: Yes, but they were up against the special problem of having large fleets of aircraft which they could not use due to DC-6 grounding.

Mr. NICHOLSON: And how is their passenger ratio compared to the T.C.A.'s.

Mr. McGREGOR: Slightly higher.

Mr. NICHOLSON: I suppose their population density is quite a factor.

Mr. McGREGOR: Yes.

Mr. NICHOLSON: At the bottom of page 5 you say:

> Winnipeg and Edmonton were brought within five hours of each other on July 1, and Saskatoon added to the air line net work when a daily schedule commenced between those three cities.

What progress have you made to extend the service to Vancouver?

Mr. McGREGOR: That is not planned at the moment, due to the airways situation. It is possible to arrange facilities to fly direct to Calgary and Vancouver but not direct from Edmonton to Vancouver.

Mr. NICHOLSON: How many more airports would have to be established?

Mr. McGREGOR: I would say two, but the range facilities require more than two, and it would do very little to shorten the route.

Mr. JACKMAN: If we have excess carrying capacity at the moment, how many craft have you got on order.

Mr. McGREGOR: There are 20 North Stars in the total order, and, as of a few days ago, eight have been delivered in shape to use.

Mr. JACKMAN: They were not in use last year?

Mr. McGREGOR: No. They were not in use last year.

Mr. JACKMAN: How are you going to use all this additional equipment profitably? Are you going to retire a lot of the present planes?

Mr. McGREGOR: Yes. All the Lockheeds will be retired and at least three DC-3's, the old DC-3's.

Mr. JACKMAN: Have you a net figure which indicates the capacity or whatever you call it?

Mr. McGREGOR: Yes; the capacity in seat miles.

Mr. JACKMAN: Well, the total capacity for passengers or mail and freight.

Mr. McGREGOR: The whole system capacity; do you wish me to compare 1948 with 1947?

Mr. JACKMAN: What I should like to know is: that if you had an excess capacity, if you had an excess last year, and if you get 20 North Stars on order to be delivered, then what is your net increase going to be in capacity, less retirement.

Mr. McGREGOR: I think we are talking a wee bit at cross purposes. What the report sets out is that we are not embarrassed with excess passenger capacity. But each time you fly a passenger aircraft, an aircraft flying reasonably filled with passengers, you still have available lift in the form of cargo and it is this which we are most anxious to correct in 1948.

Mr. JACKMAN: You were three per cent down on your passenger fill last year, and you are going to have more capacity for the use of passengers or excess; so I would like to get some kind of figure which would measure your capacity for 1947, which was not utilized, and what you will have when you have delivered all the 20 North Stars.

Mr. McGREGOR: I see. The use exceeded in 1947 was 41½ per cent by weight, not by passenger.

Mr. JACKMAN: What do you mean by weight; you can carry that much more poundage?

Mr. McGREGOR: Yes, that's right. The total available lift of the aircraft compared with what was actually handled for each mile flown.

Mr. JACKMAN: You had 41½ per cent in the way of poundage capacity last year. Now, assuming there is no increase in poundage using the lines, how would you relate your poundage capacity when you have these 20 North Stars, less retirements.

Mr. McGREGOR: We are certain to have a greatly increased poundage; we are reasonably sure to be flying by mid-summer some portion of the first class mail of this country. We are quite certain, and we have already experienced it with cargo, which is going up rapidly, and will be doing so even more.

Mr. JACKMAN: You have had a slight take up already of 41½ per cent.

Mr. McGREGOR: That is right; but weight load factors, which those figures represent, are never as high as passengers, and obviously, can never be, and 75 per cent weight load capacity would be excellent.

Mr. JACKMAN: But last year you had 41½ per cent excess, which would give 58½ use.

Mr. McGREGOR: Yes.

Mr. JACKMAN: And if you had 75 per cent, you are doing very well. Can you tell us what your break even point is.

Mr. McGREGOR: About 70 per cent.

Mr. JACKMAN: The reason why I am pursuing this inquiry is because most companies, in the ordinary course of business, could expend out of earnings; and there also comes out of the earnings what the shareholders

get in the way of dividends; whereas with a company of this nature, all you have to do is to indent to parliament, and with the force of the minister behind you, you will get your demands.

Mr. McGregor: The minister is a very difficult man to sell on such a point. It is only fair to say that.

Right Hon. Mr. Howe: This is the first time we have ever come to parliament to ask for a vote for a deficit since we started.

Mr. Jackman: Perhaps it is getting harder to sell now; is that the idea?

Right Hon. Mr. Howe: You cannot double your equipment and expect to fill it in the first few months. An air line, like a hydro, must have a little reserve capacity for growth.

Mr. Jackman: But you never had a $41\frac{1}{2}$ per cent reserve in a hydro system—not in Ontario anyway.

Mr. Nicholson: And what about first-class mail?

Mr. McGregor: The Post Office Department and ourselves have agreed on a submission to the government as a basis on which mail will be carried; and I hope that not later than July 1, and possibly by June 1st of this year, that it might be in effect.

Mr. Nicholson: Do you feel free to give us any details?

Right Hon. Mr. Howe: I think it is a matter of government policy which has not yet been decided.

Mr. Fulton: Could we be told the basis of the submission.

Right Hon. Mr. Howe: I do not think that would be wise because the government has not yet considered it.

Mr. Nicholson: I noticed there is not a very large increase in the volume of air-mail carried in 1947 over 1946.

Mr. McGregor: The question of air-mail rates is important today, and there is a natural trend for the volume of mail to taper off from the war conditions which were certainly artificially stimulated.

Mr. Lockhart: What is the explanation for the British postal department not giving us mail?

Mr. McGregor: The explanation is entirely tied up with the dollar situation. If they buy air-mail transportation from us, it means an outside dollar expenditure; whereas, since they have their own air lines, the B.O.A.C. flying from the United Kingdom into Montreal and New York, it is much more in line with their difficult economic situation to patronize the home industry and pay it in pounds.

Mr. Hazen: Your equipment and staff have been used fully only for four months of the year; during the other eight months of the year, what proportion of your staff and equipment were used?

Mr. McGregor: All the equipment was used, but not as heavily as it could be. You have a severe hump in the total traffic requirements of the air lines during the summer months. But we hope that foreign services to the south will tend to level that off in the future. But it is quite true of general east and west air lines; they all suffer from it; and the one exception which the minister mentioned is the line operating in the States, which operates almost entirely on north and south routes.

Mr. Hazen: Did you say that all equipment was used, but not fully used?

Mr. McGregor: Exactly.

Mr. Hazen: But all the staff was not fully used; do you keep records to show what proportion of your equipment and staff are fully used?

Mr. McGregor: Yes, we keep such records.

Mr. HAZEN: I do not suppose it would be the same for the remaining eight months; I suppose it would vary.

Mr. McGREGOR: Depending on which month, very considerably; and we keep records of the main groups affected, and the flight crews and their hours flown each month. Obviously it is not good economy to let out flight crews in whom we have a tremendous equity in training.

Mr. HAZEN: Which months drop off? They are the summer months, the four summer months.

Mr. McGREGOR: The late summer months; September is one of our heaviest months. The drop off starts in October then it picks up again in December, which is a heavily travelled month; and January and February are at a low ebb; but in March it starts to rise again.

Mr. NICHOLSON: At the top of page 6 you say:

> July 1 also saw the inclusion of Medicine Hat and Swift Current in a daily trans-continental schedule.

Has that been a profitable experiment; and how many more points are you likely to establish on the main line?

Mr. McGREGOR: It is very difficult to segregate the cost of that type of operations; but they were a little bit unique in the history of the T.C.A., because we regarded them as short on-the-ground-time points where we could operate as cheaply as that type of operation indicated and the result was that we put in a minimum of staff, and we put stewards rather than stewardesses on the aircraft so that the men could assist in the baggage handling while the aircraft was on the ground. We expect to go into Brandon and Yorkton on an experimental basis this summer.

Mr. NICHOLSON: How about Moose Jaw?

Mr. McGREGOR: Moose Jaw is not contemplated.

Mr. NICHOLSON: How soon do you expect to get into Yorkton?

Mr. McGREGOR: Yorkton and Brandon are, I think, dependent on the airport situation; but I would say probably about June 1st.

Mr. JACKMAN: I suppose this figure of $58\frac{1}{2}$ per cent of use, of poundage capacity for last year, refers to flights which had actually taken place?

Mr. McGREGOR: Oh, yes.

Mr. JACKMAN: Is there a comparable figure for the use of all your equipment?

Mr. McGREGOR: No; we do not fly a flight on the basis of the available load. A scheduled flight must be flown.

Mr. JACKMAN: But you said that it was at certain periods of the year that there was an excess of capacity due to weather and various causes. Is there a figure available as to the extent of the use of your flying equipment?

Mr. McGREGOR: No, there is no such figure.

Mr. HAZEN: Did you carry flowers on many flights last year as cargo?

Mr. McGREGOR: No.

Mr. HAZEN: Well how are you doing with them this year?

Mr. McGREGOR: Very well.

Mr. HAZEN: Are they mostly from the west coast?

Mr. McGREGOR: Yes.

Mr. HAZEN: And you have been carrying them quite frequently?

Mr. McGREGOR: Yes.

Mr. HAZEN: Is that business just seasonal, or would it go on in the summer as well as in the spring?

Mr. McGregor: I would not think so; I would say that it was seasonal; and the same would be true of the other specialized air cargoes such as lobsters on the east coast.

Mr. Hazen: Did you carry many lobsters last year as cargo?

Mr. McGregor: No, we did not because some of that type of cargo is difficult to associate with passengers.

Mr. Hazen: Have you started in with it this year?

Mr. McGregor: Yes.

Mr. Hazen: Have you some cargoes this year?

Mr. McGregor: Yes.

Mr. Hazen: Where do you pick up these cargoes?

Mr. McGregor: Halifax is one point; and we have also flown some from Newfoundland.

Mr. Hazen: How far across the continent do you fly them?

Mr. McGregor: Montreal is as far west as any of that cargo has come; and Montreal is as far east as the flower cargoes come from the west coast.

Mr. Jackman: In connection with the overseas mail, I suppose we route most of our Canadian mail over our own lines.

Mr. McGregor: Yes.

Mr. Jackman: Where do the British planes pick up the eastbound air-mail or cargo?

Mr. McGregor: At Heath Row in London.

Mr. Jackman: No, the British planes, do they go back home empty?

Mr. McGregor: Quite. There is no Canadian mail.

Right Hon. Mr. Howe: They only have two flights a week.

Mr. Jackman: But that is sufficient to carry the westbound mail.

Right Hon. Mr. Howe: Oh, yes.

Mr. Jackman: Do their planes go back empty?

Mr. McGregor: In so far as mail is concerned.

Mr. Jackman: Cannot anything be worked out as to that?

Right Hon. Mr. Howe: It works fairly well for us because our heavy runs are the western loads and I do not think we lose too much at any time on the eastbound.

Mr. Jackman: You mean that you carry more people.

Right Hon. Mr. Howe: Yes.

Mr. McGregor: There is only a certain amount of mail, and it is not important whether we have half of each others or all of our own. It is an ideal thing not to be cluttered up with mail and cargo on the westbound flights.

Mr. Nicholson: If you could fill your planes with passengers then it is more profitable than for you to have mail or cargo?

Mr. McGregor: It is about the same.

Mr. Jackman: Would you explain what you mean by the expression: "production costs per available ton mile".

Mr. McGregor: Available ton mile: that is what we regard as the yardstick of the amount of transport work provided; and it means exactly what it says. It is the transportation of a ton, or rather the ability to transport a ton for one mile; and it has nothing whatever to do with the use that is made of that ton-mile capacity. It is there to be sold, and if it is sold and filled it is a good thing. But that does not affect the costs of producing that ton mile.

Mr. JACKMAN: If you had not been able to produce, all your production costs would vary on the ton basis.

Mr. McGREGOR: That is right. The cost does not vary whether you fill it or not.

Mr. JACKMAN: I had difficulty in reconciling the figures given for the T.C.A. and published in the Dominion Bureau of Statistics pamphlet "civil aviation", month by month. I have it for eleven months and it says that the operating loss was $2,209,000, but the December figures are not available in the report. Whereas your deficit here says: $1,761,000. Could that be explained to the committee?

Mr. McGREGOR: I think it could. I do not know just what month it occurred, but during the latter part of 1947, it was realized that we were not going to have any other aircraft and also that the useful life of the DC-3 was obviously going to be longer than had been previously contemplated, through the development of air cargo; and for that reason the depreciation period on the DC-3's was changed from three years to four years. I do not know whether that first appeared in December or in a previous month.

Mr. JACKMAN: The depreciation of the DC-3's rate was changed from a three-year to a four-year basis.

Mr. McGREGOR: Yes.

Mr. JACKMAN: It must have have been made retroactive for the year.

Mr. McGREGOR: It would apply for the year.

Mr. JACKMAN: Then does that account for the $1,000,000 difference.

Mr. McGREGOR: I would think, in part only.

Mr. COOPER: The adjustment was only about $400,000.

Mr. JACKMAN: Well, I still come to this figure, which is number 18 on the Dominion Bureau of Statistics pamphlet, under operating revenue, under Trans-Canada Air Lines; and if you had about a month to go, and you had $2,209,000 loss, with December still to come, and you only report a deficit of $1,761,000.

Mr. McGREGOR: That comes pretty close to Mr. Cooper's figure, I think.

Mr. JACKMAN: But how would December show? What was your operating figure?

Mr. McGREGOR: I think I have it here. December showed a net operating profit of $628,180.02.

Mr. JACKMAN: A profit?

Mr. McGREGOR: Yes.

Mr. JACKMAN: A profit of how much?

Mr. McGREGOR: $628,180.02.

Mr. JACKMAN: That must include a write-back for the year.

Mr. COOPER: There were two adjustments. One had to do with depreciation and the other with adjustments on the mail rates.

Mr. JACKMAN: November shows a loss of $327,000, yet for December you show a profit ?

Right Hon. Mr. HOWE: I think there was an adjustment of the mail rates. We had an annual contract and so much was credited each month; but at the end of the year we had more coming to us than we had been credited with month by month.

Mr. McGREGOR: And there was an experiment with the first-class mail car-

Mr. McGREGOR: And there was an experiment with the first-class mail car-

Mr. JACKMAN: There certainly was a very large adjustment for any one month. Are you going to have these figures adjusted in the Dominion Bureau of Statistics records; if they are to be worth anything at all, then they should be kept accurately.

Right Hon. Mr. HOWE: It will be all right when they get the December figures.

Mr. JACKMAN: What is the justification for changing the DC-3's depreciation rate from three years to four years, using them for cargo; surely, there is nothing new about that.

Mr. McGREGOR: In 1947 it was definitely a new idea.

Mr. MOORE: In the past few years the price of gasoline has increased appreciably. Has the price of aviation gasoline also increased?

Mr. McGREGOR: Yes. Very definitely. And, incidentally, on that point we are paying twice as much per gallon as the United States operators.

Mr. JACKMAN: May I just ask what the adjustment on the mail contract was that took place with respect to the December figure?

Mr. McGREGOR: Well, as I have mentioned, there was the idea of developing possibilities of what we call all up first class mail on certain mail routes between Ottawa and Montreal and between Ottawa and Toronto; and they were flown without public announcement, in December, in order to find out what the problems were and what the possibilities were. And if I remember correctly, the payment for that kind of adjustment which was made in the rate per pound of air-mail totalled, something in the order, I think, of about $400,000.

Mr. COOPER: $487,000.

Mr. JACKMAN: For the month of December, $487,000 of first class mail was flown from Montreal to Toronto.

Mr. McGREGOR: No. The total effects of these two things which I mentioned totalled $487,000.

Mr. COOPER: $487,000 was for the period April 1 to December 31.

Mr. NICHOLSON: What do the American, the United States Air Lines get on the basis of the five cents air-mail rate.

Mr. McGREGOR: Their remuneration varies widely between companies. In the case of the larger companies, it is lower than our remuneration; and in the case of the smaller companies, it is considerably higher than ours. It is based entirely on their financial needs. If an air line can show or specify to the United States government authority that it is operating reasonably efficiently and still operating at a deficit, they say: your air-mail rates shall now be thus and so in order to correct that situation.

Mr. FULTON: They make use of a subsidy, then.

Mr. McGREGOR: Exactly.

Mr. NICHOLSON: It is conceivable that certain western airlines would get a different rate from operating to San Francisco and Los Angeles.

Mr. McGREGOR: Well, I do know of air lines of smaller types such as the Colonial who get vastly different air-mail rates.

Mr. FULTON: Are there any further extensions or additions in western Canada contemplated?

Mr. McGREGOR: The two I have mentioned, Brandon and Yorkton.

Mr. FULTON: What about west of Calgary?

Mr. McGREGOR: No. That area is being served by C.P.A. at the present time.

Mr. FULTON: You do not contemplate any stops between Vançouver and Edmonton, when you get that service in operation?

Mr. McGREGOR: No, we do not; but the service will be inaugurated from Vancouver to Calgary non-stop.

Mr. FULTON: That is in operation now.

Mr. McGregor: Yes; I am speaking of the North Star service.

Mr. Fulton: I see that you have a planned service from Vancouver to Edmonton. Is it planned to have any intermediate stops?

Mr. McGregor: No, it is not planned at the moment.

Mr. Fulton: Do you feel there will be an increase in the volume of air mail if you did? There is quite a distance between the two points by train.

Mr. McGregor: I think it would possibly increase air mail but very definitely detract from passenger patronage. Passengers who go into an aircraft want to get to their final destination in the quickest possible time and they resent intermediate stops.

Mr. Fulton: You do not run anything like the through trains and the local trains?

Mr. McGregor: That would become the case with the introduction of the North Star aircraft which would run from Toronto to Winnipeg with the DC's stopping at the Soo and the Lake Head.

Mr. Fulton: I think you said you had shorter flights. Are you going to have any more local flights, local stops?

Mr. McGregor: There are the two we mentioned which are both east of the Calgary-Edmonton line.

Mr. Fulton: If you had the North Stars and the short flights and had a sufficiency of equipment do you not consider that the time has come when you could inaugurate more local flights?

Mr. McGregor: No, because as you introduce the other flights you decrease the patronage of the local flights; they remove all the through load from them.

Right Hon. Mr. Howe: I think what Mr. Fulton is asking is, are you considering any more flights of a local nature?

Mr. Fulton: Yes.

Right Hon. Mr. Howe: I think the air line is always studying that because we mentioned Brandon and Yorkton this year; if it can be shown that there is a potential traffic for the local flight with no other stop we would consider it. This is a matter of estimating whether the traffic is there to a certain stop.

Mr. Fulton: You can see if you look at the map in the report that there is no service into the interior of British Columbia at all between Vancouver and Lethbridge and Calgary and Edmonton respectively.

Right Hon. Mr. Howe: You have the C.P. Air Lines which are practically the same as a local service.

Mr. Fulton: They have only one stop-over between Vancouver and Calgary.

Right Hon. Mr. Howe: No, no; there are several stops.

Mr. McGregor: I think there are three stops between Calgary and Vancouver.

Mr. Fulton: On the southern route?

Right Hon. Mr. Howe: That service goes up to Fort St. John from Vancouver. There are several stops.

Mr. Fulton: That is purely local.

Right Hon. Mr. Howe: Yes, it is local.

Mr. Fulton: I was thinking of connecting up with other T.C.A. routes. At times it is difficult to connect up with the mail from Vancouver to Calgary.

Mr. McGregor: The C.P.R. service stops at three intermediate airports if I remember correctly—Penticton is one and there is Trail, and there is a third one. I am not very familiar with their service.

Mr. Fulton: Those are landing places, are they? I was wondering whether you contemplate anything between Vancouver and Calgary and Vancouver and Edmonton; but you say you do not.

Mr. McGregor: Not at the moment, there is not an airport available to us.

Mr. Fulton: I can tell you there is one at Kamloops.

Mr. McGregor: I do not think Kamloops would be suitable for North Star landings.

Mr. Fulton: You did not tell us that. You said the North Stars were not going to do any stopping and I wondered if you could increase the number of stops of smaller planes.

Right Hon. Mr. Howe: We do not attempt to use smaller planes over the mountains. We have never dared to put Douglases through, as far as the T.C.A. is concerned. We have operated Lockheeds. You get icing conditions that demand a high-powered plane. We intend to do that with the North Stars.

Mr. Nicholson: What plane are you using to Medecine Hat and Regina?

Mr. McGregor: DC-3's. We will not operate DC-3's across the mountains. The one-engine performance of other machines is not sufficient.

Mr. Nicholson: What do you use from Lethbridge to Vancouver?

Mr. McGregor: Lockheed Lodestars.

Mr. Nicholson: There was some talk about Penticton; I think you said that the C.N. is not serving Penticton but that the C.P. is.

Mr. McGregor: I hardly think that is T.C.A. country. They had, as a matter of fact, a service which was established by the C.P.A. and we were quite happy that it should be so.

Mr. Nicholson: Was it understood that the T.C.A. handled all services? There was quite a time when Penticton did not have any services.

Right Hon. Mr. Howe: That route is being handled by smaller planes. The Lodestars are heavy.

Mr. Nicholson: Are not the C.P.A. using the same kind of plane over that route?

Hon. Mr. Howe: Frankly, I do not know what they are using.

Mr. McGregor: They were required to fly by a combination of planes, which was a rather costly arrangement. I believe that has been changed now.

Right Hon. Mr. Howe: There is a very difficult operation there.

Mr. McGregor: Going down into the airports in the middle of the Rockies is not a happy situation. Flying with aircraft on which you cannot get an altitude of upwards of 12,000 feet on one engine we do not regard as good practice.

Mr. Fulton: What are the runway requirements of the North Star?

Mr. McGregor: 5,200 feet. It can be operated with considerably less if you are prepared to sacrifice load.

Mr. Fulton: Can you tell me offhand how that would compare with the Lancasters you used to fly?

Mr. McGregor: About the same.

Mr. Fulton: I think our airport could accommodate both because we accommodated Lancasters during the war.

Mr. McGregor: There is a vast difference between a Lancaster bomber without load and a commercial aircraft loaded to plane capacity.

Mr. Fulton: You mean one light and the other heavy?

Mr. McGregor: Quite so.

Mr. Fulton: I understood it was designed for both types.

Mr. Jackman: With regard to mail contracts and the carrying of mail from Montreal to Toronto, I have always found in Ottawa that I could get better service without using air mail; in fact it is slower service by air mail than first-class mail, and as a consequence I never use air mail for speedy delivery.

Right Hon. Mr. Howe: Maybe you are using air mail and do not know it. The planes have been carrying a lot of first-class mail.

Mr. Jackman: It is a long time since I have put an air mail stamp on my mail. Can you assure the committee that mail carried between Toronto and Montreal is getting a fast delivery with the T.C.A. carrying it as when the railways carry it? I am speaking of between the mail box and the house or the office.

Mr. McGregor: I can assure the committee that on mail picked up and delivered as between station and station and airport and airport the air letter is the faster.

Mr. Jackman: There is the time taken from the airport to the city which often results in delays.

Mr. McGregor: That was true some time ago. The regulatory of service is very definitely improved. There are a greater number of flights operating. Then we are beginning to feel the effect of the improved landing aid equipment, which is having the effect of increasing the regulatory. I think most airfields—

Mr. Lockhart: The sorting of the mail is done at the end of the trip, is it not?

Mr. McGregor: It depends; it varies.

Mr. Lockhart: It is not done en route?

Mr. McGregor: No.

Mr. Lockhart: That appears to be where the railways have the edge; they have the mail already sorted.

Mr. McGregor: We like to think that we can do that in the future by the use of purely mail planes, when the mail crew would have access to the mail carried. That is not the case at the present time.

The Chairman: Are you through, gentlemen, with questions with regard to the mail?

Mr. Jackman: There is not very much net advantage to the country; the planes and the trains are doing the same thing. With the T.C.A. carrying this mail it takes the revenue from the railways which need it as much as you do.

Mr. McGregor: I think there would be a great advantage in sending the mail by air; something of the order of twenty-four hours between Toronto and Winnipeg.

Mr. Jackman: I am speaking of Toronto and Montreal.

Mr. McGregor: I said that was used purely as an experiment to find out what the handling problems were.

Mr. Jackman: It is in your operating account for 1947?

Right Hon. Mr. Howe: Not all of it; there were some adjustments to make in the previous months, I think. I do not think all the December adjustments resulted from that service. I think in the month of December, at the end of the year, there were credits over the full year to make adjustments. For example, depreciation was adjusted for the full year. I dare say the mail account was adjusted for the full year. I do not think you can say that all the revenue in December came from operations in December; the Air Lines received that money in that month.

Mr. JACKMAN: I realize you changed your depreciation rate and made it retroactive on the DC-3's.

Mr. MCGREGOR: Yes.

Mr. JACKMAN: What is the depreciation rate over there?

Mr. MCGREGOR: I cannot answer that.

Right Hon. Mr. HOWE: I think it is four years. I think we always depreciate our Lockheeds over four years.

Mr. MCGREGOR: Five.

Right Hon. Mr. HOWE: The theory with regard to these DC-3's is that they were war planes reconverted in Canada and we planned that a new type of plane would come in so that the life of these planes would be shorter than other planes, and we planned a three-year depreciation. There was no medium range plane coming along that was any better than the DC-3. It is pretty certain we will use up the four-year period instead of the three-year period. They changed the depreciation rate for that reason.

Mr. MCGREGOR: There was another feature. The American authorities increased the life of the DC-3 during 1947—toward the end of 1947—to extend its certificate of airworthiness to 1954, which was something we had been in doubt about prior to that.

Right Hon. Mr. HOWE: There was a dead-line—twin-engine planes to 1951; and they advanced them to 1954.

Mr. JACKMAN: We had some evidence yesterday to the effect that depreciation based on the cost throughout not only of the railway system but throughout industry generally was quite inadequate to meet replacement at the end of the period because of the tremendously increased cost of the new equipment. Does not that apply to the DC-3 class? Does a plane cost more now than it did five years ago?

Mr. MCGREGOR: Yes.

Right Hon. Mr. HOWE: More than twice as much.

Mr. JACKMAN: Would it not have been much more sensible to retain the three-year rate? It seems odd with planes costing twice as much to replace as the book cost of the equipment that you should extend the depreciation period a further year. Even when you depreciated the whole thing you would have only your replacement cost back.

Mr. MCGREGOR: I am not an accountant, sir, but I do know that with depreciation you are not setting up a sinking fund to purchase replacement equipment; you are endeavouring to have your aircraft written off at the time you are through using them.

Mr. JACKMAN: I think the committee should know this: if you have a fleet of taxicabs which cost you a thousand dollars each and you write off $333 a year, at the end of the period while you might have thought you were enjoying great prosperity you would find you have half the size fleet because of the cost of the new equipment.

Right Hon. Mr. HOWE: That is inherent in all business, is it not? The income tax people will only let you write off the construction costs.

Mr. JACKMAN: In this case you are not bothered with income tax at all. I said we should apply common sense rules. You have extended that period four years instead of three. Instead of meeting the situation you have put yourself in a worse condition.

Mr. MCGREGOR: I do not think we have put ourselves in any worse condition. The expected use of the aircraft increased and the logical thing to do was to increase the depreciation rate to correspond to the expected useful life.

Mr. JACKMAN: That is what I gathered.

Right Hon. Mr. Howe: If parliament wants to vote the line more money they can do it next year.

Mr. Jackman: It is not up to the standard of the minister's usual business judgment. All I can do is make the point that it is not a sound thing to do.

Mr. Cooper: I do not think there is any authority anywhere which will permit you to accrue depreciation on a replacement basis; it is always on the cost basis. I think you are writing off the cost of the property which is being used up in service.

Mr. Jackman: At the end of the time you would have only half your fleet of taxicabs, and I think you know that as well as I do. You are not going to be able to replace the equipment worn out, partly charged to operations, during the period of use.

Mr. Cooper: You will not be able to replace it out of operating revenue, and you are not entitled to replace it out of operating revenue.

Mr. Jackman: Of course, that is an accounting point of view. I agree with the theory that it does not work out in practice owing to the faster period of rising costs we are still in.

Mr. Hazen: I see that Trans-Canada Air Lines had a deficit of $1,761,042 and that Trans-Canada Air Lines (Atlantic) Limited has a surplus of $136,303. I suppose the expenses increased on the Atlantic line as they did on the Trans-Canada line. How is it you are showing a surplus on the Atlantic line while you are so unfortunate as to have a deficit on the Trans-Canada line? Were your rates higher in comparison on the Atlantic line or were costs less for carrying more cargo; or is this a matter of bookkeeping?

Mr. McGregor: It is not a matter of bookkeeping. It is a little of all the things you have mentioned. The rate per mile on the Atlantic service is approximately three cents per passenger mile higher than it is domestically. The loads were excellent, as you know. The problem was to accommodate the passengers rather than to look for them. The same was quite true of the cargo due to the gift food parcel volume.

Mr. Nicholson: What information have you on the operation of your competitors on your trans-Atlantic business?

Mr. McGregor: I think it is true to say we are the only trans-Atlantic operator showing an operating profit for 1947.

Right Hon. Mr. Howe: They were not operating in the months of January, February, March and April; the operations started in May. It is hardly a fair comparison.

Mr. Nicholson: How many flights were cancelled?

Mr. McGregor: There were no trans-Atlantic flights cancelled in 1947. That does not mean that every flight flew on the day set, but if a flight was held up due to weather it flew as a second flight the next day. There was no flight cancelled.

Mr. Jackman: Mr. Chairman, just for the record, I wonder if it would be too much trouble to ask the T.C.A. to put on the record the adjustments which were made in December particularly on depreciation and then any adjustment in the mail contract, plus the revenue received from the carrying of mail between Montreal and Toronto and Montreal and some other point and Winnipeg?

Mr. McGregor: Yes. Mr. Cooper has the breakdown of those figures.

Mr. Jackman: I wonder if you would put them on the record for us so that we can see why it is the figures reported to the D.B.S. do not jibe with the figures in the T.C.A. report. (See opening of afternoon session.)

Mr. McLure: The Maritimes Central Airway is a feeder line to the T.C.A. You do not operate in the province of Prince Edward Island?

Mr. McGregor: That is right.

Mr. McLure: I said one time before that we had one little inconvenience with regard to passengers; that there were no rights for the passengers for the Maritime Central Airway to connect at Moncton. The passenger always had to take his chance on having a seat on the T.C.A., and Mr. Symington stated that he would look into the matter and see if it could be adjusted so that there would not be that inconvenience. At the same time he made the statement that the Maritime Central Airway was an excellent feeder line to the T.C.A.; but I have myself on two occasions in getting tickets for passengers experienced a delay of a day in Moncton, due to the fact that they were leaving Charlottetown at a certain time and they could not get a reservation from there to Winnipeg. The T.C.A. said they would do their best to adjust the matter.

Mr. McGregor: That has definitely been gone into. It is partially a matter of communications, and it would apply to a passenger originating and boarding the plane at Moncton as well as to one boarding on the island. In order to confirm a seat through to Winnipeg from Charlottetown it is necessary to make the request through Moncton and then from Moncton to Toronto and have a seat confirmed over each of the three regional legs of that journey, and it does involve a little time. However, it is not peculiar to Prince Edward Island passengers.

Mr. Nicholson: There is no reason why that cannot be confirmed before the passenger leaves Charlottetown, is there?

Mr. McGregor: None whatever if he is prepared to wait; if he goes to Moncton on spec, it is different.

Mr. McLure: With the exception that the people in Moncton would have the preference of a few hours' time over the passengers from the Maritime Central Airway from Prince Edward Island.

Mr. McGregor: The communication time.

Mr. McLure: You are endeavouring to adjust that, are you?

Mr. McGregor: Certainly. There is complete agreement in the making of reservation and there is no preference between Moncton and Maritime Central Airway in the case of people asking for space.

Mr. McLure: I am not bringing the matter up as a complaint, but just asking for consideration. We think our Maritime Central is giving us a wonderful service, and if anything could be done we would like to see it done.

Mr. McGregor: We have interchange arrangements with them and we enjoy good relations with them.

Mr. Hazen: What is the difference between pressurized and unpressurized North Star aircraft?

Mr. McGregor: A good deal. There are many differences, besides that of the cabin pressure.

Mr. Hazen: I notice you use those terms in the report.

Mr. McGregor: Those words are used to designate the difference between two types of aircraft; the first called the M-1, the unpressurized, and the M-2, the pressurized. The technical difference is that in the case of the M-2 the cabin is equipped with compressors which have the effect of producing artificial pressure in the cabin which reduces the effect of altitude to the point at which it is pressurized. If an aircraft flies at 20,000 feet the equivalent would be 7,000 in the cabin.

Mr. Hazen: How many of these pressurized aircraft have been delivered?

Mr. McGregor: Fourteen have been delivered but to date only nine of them had been put in a modified form ready to use. There is work being done to the remainder to suit them to the Atlantic operation. There are six of them on the Atlantic route now.

Mr. Hazen: They are all in service on the Atlantic?

Mr. McGregor: Yes.

Mr. Hazen: Who built them?

Mr. McGregor: Canadair of Montreal.

Mr. Hazen: What did they cost?

Mr. McGregor: $660,000—that is the pressurized version.

Mr. Hazen: Is that shown in this statement?

Mr. McGregor: The purchase price?

Mr. Hazen: Where do you show the amount spent? For instance, is it the same as since the report was prepared?

Mr. McGregor: No, a part of the purchase price was not spent, as of December 31, 1947.

Mr. Hazen: Where is that in this report?

Mr. McGregor: It appears under capital investment on the balance sheet, on page 12, the last item on the left-hand side.

Right Hon. Mr. Howe: $12,858,000.

Mr. Jackman: How many planes does that cover?

Right Hon. Mr. Howe: That is the progress payment on twenty planes, some of which are finished and some are under construction.

Mr. Jackman: On a cost plus basis?

Right Hon. Mr. Howe: Oh, no; $660,000 each.

Mr. Nicholson: I was going to inquire whether you have the ratio of fatal accidents to the total miles flown since the T.C.A. commenced operations and a comparison between them and some lines in the United States.

Mr. McGregor: That could be provided. We do not like to boast about it and do not use it as a matter of publicity, but we can certainly provide it and have it put into the record, if you wish.

Mr. Nicholson: Is there any reason why you should not give publicity to it? It is really safer to travel by air than motor car, is it not?

Mr. McGregor: We feel a little bit like the navy, which is sometimes called the "silent service": if it is a good record it speaks for itself and tub thumping does not accomplish very much.

Mr. Jackman: The progress payments on the 20 North Stars total $12,858,000, leaving a balance of $1,000,000 more to pay.

Right Hon. Mr. Howe: That is right. They were practically finished in 1947 when they had trouble with the DC6's and there were some adjustments to make on them; and while they were quite extensive as far as work goes, it did not amount to much in dollars.

Mr. Jackman: Are there any extras coming into this contract.

Right Hon. Mr. Howe: As to the extras, we will give them to you next year. Any extras would be those extras specifically ordered by the air lines.

Mr. Lockhart: You made a statement as to pressure of applications for seating capacity on the Trans-Atlantic run. In other words, you are fighting off applications. That is true both ways?

Mr. McGregor: Only for certain months in the year.

Mr. Lockhart: In your opinion, is there any justification for people who use the Trans-Atlantic service to say—and I have had two instances which I can

recall—for them to say that they have tried Trans-Canada Air Lines flights and that they have travelled over the American Air Line flights coming into New York, and that, by all means, the American flights are the better and the more satisfactory. I have had that occur twice within three or four months. Do you repudiate that statement?

Mr. McGregor: I would, personally, and I have tried them both. We have voluminous evidence to support that repudiation and we have very many letters of commendation.

Mr. Lockhart: That was what I was anxious about because, of course, I could not repudiate it personally.

Mr. McGregor: People do not fly the Atlantic every day and it depends on their individual experience; and there are flights which are fairly unpleasant for the passengers due to weather and other difficulties. They are routed through the Azores and they may be put up in accommodation which is not always of the very best, depending on how many flights are in; and there are flights which get into Goose Bay which is not too attractive as far as accommodations are concerned. It does sometimes happen, and it is a basis of unfavourable comparison when it does.

Mr. Lockhart: I have had two such statements made to me within three months.

Right Hon. Mr. Howe: We carry ten Americans across the Atlantic via T.C.A. to one Canadian who goes via New York.

Mr. Lockhart: I will get some of the evidence from them if I ever hear that statement repeated.

Mr. McGregor: Well, hardly a day goes by when we do not get evidence which is very favourable to us.

Mr. Jackman: Did the change in the charge to the capital advance to the T.C.A. come about directly through the 1945 amendment which we put through the house.

Right Hon. Mr. Howe: It was 1946, was it not?

Mr. Jackman: It says 1945 here. How much government money has T.C.A. got now?

Right Hon. Mr. Howe: We increased the capitalization to $25,000,000 and I think we have the whole $25,000,000 now.

Mr. Jackman: You call it the balance of the subscriptions.

Mr. McGregor: Since the end of the year.

Mr. Jackman: That formerly would have borne 5 per cent; and it says it was changed in 1946 so that the interest payments were at the same rates that the railway companies are called upon to pay on the advance to them by the government, for advance for capital purposes.

Right Hon. Mr. Howe: Three per cent.

Mr. Jackman: Three per cent?

Mr. McGregor: It was changed during the year.

The Chairman: Are there any other questions as to the balance sheets, pages 12 and 13?

Mr. Emmerson: On page 6 it says:

> A new international operation was inaugurated on April 1st, with the service between Halifax, Yarmouth, Saint John and Boston.

Is that a daily service?

Mr. McGregor: Twice daily.

Mr. Emmerson: Is that service continuing, and do they still use Yarmouth?

Mr. McGregor: Yes.

Mr. Emmerson: My other point is on page 8, where it says:

> Extensive runways development took place at Toronto, Winnipeg, Calgary and Lethbridge to fit those airports for the handling of four-engined aircraft.

Because of something which I said in the newspaper, is there any proposed extension of the runways at Moncton to take care of four-engined aircraft?

Mr. McGregor: I think that is in progress, as a matter of fact.

Right Hon. Mr. Howe: It is under construction now.

Mr. Emmerson: You have no information as to what the extension was?

Right Hon. Mr. Howe: Oh, the main runway is being extended to 6,000 feet.

Mr. McGregor: Yes.

Mr. Emmerson: And it will be of concrete.

Right Hon. Mr. Howe: Yes, I think so.

Mr. Hazen: Who paid for the development to these runways?

Right Hon. Mr. Howe: The Department of Transport. We own the airport.

Mr. Warren: My question has to do with the foot-note at the bottom of page 9, and I will just read a couple of lines as follows:—

> A total 15,815 passengers crossed the Atlantic with T.C.A. during the last eight months of 1947, when the operation had sole commercial status. 14,393 of these travelled on scheduled flights. The remaining 1,422 were largely immigrants from the United Kingdom, carried under a charter arrangement with the province of Ontario.

I wonder if we could have some information regarding that set-up.

Mr. McGregor: Do you wish me to describe the agreement?

Mr. Warren: It does not do so here.

Mr. McGregor: There was a charter agreement entered into between the province of Ontario and Trans-Canada Air Lines for the transport of passengers on a chartered basis, which the province of Ontario's representatives in the United Kingdom would develop.

Mr. Warren: Did the province of Ontario undertake any responsibility regarding the fares of those passengers or anything of that nature?

Mr. McGregor: That was entirely a matter for the province. They agreed to pay the Trans-Canada Air Lines so much per flight flown; and as to what they did with the space thus made available to them was entirely the business of the charterers. It is exactly like the case of chartering a ship.

Mr. Warren: Is that charter still in effect?

Mr. McGregor: No, it terminated as of the 15th of April with an extension to accommodate Ontario.

Mr. Warren: Why was it terminated?

Mr. McGregor: It was terminated because Trans-Canada said the rate would go up from $9,000 to $11,500 per flight.

The Chairman: Are there any other questions, gentlemen?

Mr. Jackman: May I ask in regard to the carrying of cargo; you have just all express or freight or what other classification.

Mr. McGregor: Cargo and air express.

Mr. Jackman: Is your express on a poundage basis as renumerative as passengers?

Mr. McGregor: In actual receipts, it is as renumerative; but whether it pays the air lines as well, is a moot question, because, in order to make prompt delivery of air express, it is necessary to reserve space in the aircraft on the assumption that you are going to have so much express load; if that load does not materialize there will be space left vacant which is the reason for the considerable differential between the rates on express and cargo.

Mr. Jackman: Well, is it better for the line to carry 180 pounds of human freight or to carry that much pounds of cargo?

Mr. McGregor: It is better to carry a pound of passenger than a pound of air cargo. But we can only carry due to the construction of the aircraft, just so many passengers; and you will automatically have the cargo space.

Mr. Jackman: Is the cargo very much less per cost per pound?

Mr. McGregor: About half, or very nearly half.

Mr. Jackman: Then it is better to carry mail than to carry people.

Mr. McGregor: Correct.

The Chairman: Can we start with the consolidated balance sheet and then take page 14 and if there are any questions, take them as we go along? Is there anything more on pages 12 and 13 of the consolidated balance sheet? O.K.

Mr. Jackman: On page 8 it says:—

> Victoria, Lethbridge and Saint John, N.B. use was made of renovated air force buildings. The Department of Transport began construction of a large terminal building at Toronto.

So far as the buildings are concerned, have you the cost of those buildings to the T.C.A.?

Mr. McGregor: Not in the report; Mr. Jackman; we rent them. What you mean is the cost of renovating them? We bear the cost of renovating them; but I have not got the figures here.

Mr. Jackman: Were you given them?

Mr. McGregor: Definitely not! We do not own them; we rent them and bear the cost of renovating them.

Mr. Hazen: Whereabouts in Saint John was the building renovated?

Mr. McGregor: At Penfield Bridge.

Mr. Hazen: How many miles is it from Saint John, about forty miles away from Saint John?

Mr. McGregor: That is true, but not much worse than Malton with respect to Toronto.

Mr. Hazen: At Saint John, N.B., use was made of a renovated air force building.

Right Hon. Mr. Howe: We started to call it Penfield Bridge, then we found that nobody knew where it was.

Mr. McGregor: We are just as unhappy about it as anybody.

Mr. Jackman: I now raise a diplomatic question. I see that you refer to Shannon as being in Ireland. Is it in North or South Ireland?

Mr. McGregor: That is also a question. We formerly referred to it as Eire and did so for a long time but we were informed that we were completely wrong.

Mr. Jackman: You were informed by the High Commissioner?

Mr. McGregor: I do not remember who it was who so informed us.

Mr. Jackman: Shannon is in the south.

Mr. McGregor: Yes.

Mr. JACKMAN: And with Mr. De Valera's picture in the background I think we should be scrupulously exact.

Mr. NICHOLSON: I see on page 13: "Air travel plan deposits . . . $598,400." Is that an amount which goes up year by year?

Mr. McGREGOR: It went down in 1947 due to the fact that the discount feature of the air travel plan was discontinued and there were about two per cent cancellations of plans at that time. But since that time it has gone up slightly.

Mr. NICHOLSON: Is there any prospect of discounts being given?

Mr. McGREGOR: No. None of the American lines do it; and they were most unhappy about the fact that we did, and it was definitely a bone of contention.

The CHAIRMAN: Page 14; income accounts. Are there any questions as to that? The statistical data.

Mr. JACKMAN: Is the mail contract a definite contract now, or is it flexible? Do you know exactly what the results will be depending on the volume; or how is it at the present time?

Right Hon. Mr. HOWE: So much a ton per mile. It depends on the volume entirely.

Mr. McGREGOR: 1·1 mills per pound.

Mr. NICHOLSON: Does the mail have to get priority?

Mr. McGREGOR: Up to a guaranteed volume on each flight. The post office say: We wish to have so much reserved space for mail. If we exceed that, then the excess does not get priority, but the amount which they have spoken for does.

Mr. JACKMAN: 1·1 mills.

Mr. McGREGOR: Yes, per pound.

The CHAIRMAN: Is there anything on page 15, gentlemen; flight operation; flight equipment maintenance; flight equipment depreciation; ground operations; are there any questions as to that?

Mr. JACKMAN: In regard to your pilots now and your ground staff, generally speaking, you very nearly had a strike a year ago?

Mr. McGREGOR: We nearly had a strike a year ago? No, I don't think so.

Mr. JACKMAN: You would say that you had very satisfactory labour relations all the way through?

Mr. McGREGOR: I think so.

Mr. JACKMAN: What do you pay your class 1 pilots now?

Mr. McGREGOR: It varies according to their activities; Atlantic pilots; mountain pilots; ordinary continental pilots, are all paid at a different rate. A senior captain on the Atlantic run gets $1,000 a month.

Mr. JACKMAN: And your lowest rate for pilot?

Mr. McGREGOR: $800 being for a captain; the lowest rate for a pilot is $450.

Mr. JACKMAN: Is that what you call a second officer?

Mr. McGREGOR: What we call a first officer.

Mr. JACKMAN: At what age do you have to retire these men now?

Mr. McGREGOR: There is no set retirement age. They have to undergo a severe medical test at very frequent intervals, and so long as they pass that test, I see no reason to set an age at which pilots would be forced out purely on the basis of age, should they have a perfectly sound physical condition.

Mr. JACKMAN: Is it usual to retire pilots at the age of forty?

Mr. McGREGOR: I would not say so. There are many pilots in the United States who are well over fifty; and their experience with the heavier aircraft and over the longer routes is greatly to be valued; so we would see no reason to retire a pilot simply because he has attained so many birthdays.

Mr. JACKMAN: Is there a pension right?

Mr. McGREGOR: Yes.

Mr. JACKMAN: How many years does he have to be with you in order to get full pension?

Mr. McGREGOR: The basis is a rather complicated one. It is a sliding scale and is based on his election at the moment as to what he contributes, with the company contributing up to 5 per cent of his salary, matching his contribution. He can go on beyond that 5 per cent, but the company will only match him 5 per cent. And when he does become eligible and elects to take his pension, then an annuity is purchased for the accumulated credit of his contributions and the company's.

Mr. JACKMAN: It is expected that they will get 50 per cent or more with a reasonable period of service?

Mr. McGREGOR: Yes.

Mr. JACKMAN: If you have to retire a pilot at let us say forty-five or fifty, what kind of employment can you offer to him?

Mr. McGREGOR: I do not think we have retired a pilot, so far, without being able to offer him supervisory work on the ground; but that condition will undoubtedly alter in years to come.

Mr. JACKMAN: Do you think the system will be able to absorb the men?

Mr. McGREGOR: No. I say that conditions will certainly alter things because the number of pilots is going up while the number of supervisory positions is not.

Mr. JACKMAN: Is the scale of wages in the air force commensurate with the pilot scale? Is it all high-paid help.

Mr. McGREGOR: No.

Mr. NICHOLSON: You are using a number of stewards on the Canadian service?

Mr. McGREGOR: Only in the service which I mentioned, that on short stop intermediate points, where the stewards' extra brawn is required, during the period on the ground. It is not intended to use stewards domestically at all on other twin engine flights; but they will be used on the North Star aircraft where there will be a steward and stewardess on each aircraft being operated domestically. I think there are only nine stewards being used in the domestic system at the present time.

Mr. JACKMAN: Some of the American lines are not using fully trained nurses as stewardesses.

Mr. McGREGOR: We have considerd that, but we still think we are justified in using fully trained nurses.

Mr. JACKMAN: Is there no way of giving these young people a shorter training course than the longer hospital course, specializing in various phases of medicine; or could you not utilize a less thoroughly qualified person for that position?

Mr. McGREGOR: Their qualifications have proved, time and time again, where sickness—I know of one case of pregnancy, where it would have been exceedingly difficult if we had not had a trained nurse on the job. So I think that any sort of foreshortening of training would be a very unsatisfactory thing at any time.

Mr. NICHOLSON: When you begin to use your North Stars in Canada, what stops will there be between Montreal and Vancouver?

Mr. McGREGOR: Toronto and Winnipeg, and Calgary.

Mr. NICHOLSON: Ottawa is to be passed over?

Mr. McGREGOR: Yes.

Mr. JACKMAN: How much do you have to pay to the stewardesses?

Mr. McGREGOR: That again varies, depending on the length of their service. I would say $155 a month would be a reasonable average.

Mr. ENGLISH: No. It is $145. They start at $125 and we pay up to $165.

The CHAIRMAN: Are there any other questions on personnel?

Mr. LOCKHART: On page 16 I notice an item of $82,223.63 for interrupted flight expense. Is that where you have to take care of the passengers who are held over, or something of that nature?

Mr. McGREGOR: Yes.

Mr. LOCKHART: It is quite an item, and I wondered just what it was.

Mr. McGREGOR: Yes.

The CHAIRMAN: Are there any other ground questions, ground and indirect maintenance; ground facilities depreciation; on page 16; are there any more questions on that?

Mr. NICHOLSON: The report mentions the change in service to Toronto. You moved your main office out of the Royal York hotel.

Mr. McGREGOR: Yes.

Mr. NICHOLSON: Have you found that passengers complain about the service over the week-ends, that it is not as good there now as it was some time ago; have you received any complaints as to that?

Mr. McGREGOR: We quite often get complaints about lack of information as to when a flight is going to fly. There is a fairly fixed opinion that we like to be coy about giving out that information, but that is not really the case. Quite often we are unable to pass out definite information because we have not got it. depending on conditions of the weather at distant points; and we may be informed that an airport is unusable at a certain point and that the weather is not expected to clear until a certain time. Those prove to be the most prevalent sources of complaint.

Mr. NICHOLSON: Are you giving a better service or a poorer service in Toronto now as compared to when you had your office in the Royal York?

Mr. McGREGOR: The situation has very nearly reversed itself in the last twelve months. We have had three complaints for every commendation; but it is just about reversed now. Money has been spent on that business with respect to reservation staff and equipment. In fact, one of the chief complaints was about the shortage of telephone equipment; but that has now been cured.

The CHAIRMAN: Are there any more questions on page 17? Perhaps we could adjourn and then we will just have the auditors' report for this afternoon.

Mr. JACKMAN: You do not have a budget for the T.C.A., do you?

Right Hon. Mr. HOWE: No, I do not think we have a budget.

The CHAIRMAN: No, there is no budget.

Right Hon. Mr. HOWE: All the money they have to work on is their capital; they cannot spend very much because they have not much capital left.

Mr. NICHOLSON: We should say thank you to Mr. Thompson again for the splendid job he has done with this report and the pictures.

The CHAIRMAN: That is right. That is fine, gentlemen. Then at 4 o'clock we will take up the auditors' report.

Mr. McCulloch: Is there any auditors' report?

The Chairman: Yes, that is what is left; the auditors' report and then the discussion. That will be at 4 o'clock.

Gentlemen, I want to thank you for your courtesy. I am going to leave this afternoon, so I may not be here to thank you at that time.

Now, we ought to adopt this report.

It is moved by Mr. Lafontaine and seconded by Mr. McCulloch that the report be adopted.

Carried.

The committee adjourned at 1 p.m.

AFTERNOON SESSION

The committee resumed at 4.00 p.m. The Vice-Chairman, Mr. H. B. McCulloch, in the chair.

The Vice-Chairman: Gentlemen, I believe we have a quorum. We have reached the T.C.A. auditors' report and it will be up to the committee whether Mr. Matthews reads this report or whether you will merely question on it. What do you wish?

Mr. Nicholson: If Mr. Matthews could draw our attention to some of the highlights, I think that would be satisfactory.

TRANS-CANADA AIR LINES

10th March, 1948.

The Right Honourable The Minister of Reconstruction and Supply
Ottawa, Canada.

Sir:—Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the TRANS-CANADA AIR LINES for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament.

The Air Lines has not been included as a constituent unit of the National System although 100% stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our Audit Certificate appended to the accounts published by the Air Lines, we make the following comments on the Income Accounts and Consolidated Balance Sheet:

Income Accounts

The Income Accounts reflect the operations of the Air Lines for the year 1947 and the Atlantic Service for the eight months only from the 1st May, 1947. In respect of the latter service is should be noted that the corporate status of "Trans-Canada Air Lines (Atlantic) Limited" had not been advanced beyond the provisional stage at the year-end.

The Income results are summarized hereunder:—

The general expenses of operation largely consisting of wages and materials, which continued to increase during 1947, include the following items:

(*a*) Operating portion of Personnel Training Costs;

(*b*) Administrative Charges by Canadian National Railways;

(c) Rentals of Landing Fields, Hangars and other Buildings, Airport Offices, etc.;

(d) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters;

(e) Pensions covering the Company portion of accruals under the Air Lines 1943 Plan and the Company portion of accruals for transferred employees remaining under the C.N.R. 1935 Plan, and

(f) Tax provisions covering principally Unemployment Insurance and Municipal Taxes in Canada and Federal and Municipal Taxes in the United States.

Costs related to the development of new international services not yet in operation and Research and Development of new aircraft not yet in revenue service are not apportioned against the Operating results of either the Air Lines or Atlantic Services. These costs have been taken up through the Balance Sheet account "Research and Development Expense" to which we make reference later in this Report.

Administrative charges made by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continued to act in such capacities without remuneration during the year 1947. As of the 1st February, 1948, however, a salaried President was appointed to office.

Rentals of Landing Fields, based broadly on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of Hangars and other Buildings, Airport Offices, etc., are paid to the same agencies in those cases where the Air Lines has not constructed such facilities.

Interest charges against the Air Lines in respect of Capital Invested represent a composite rate of 1·53% at the year-end on the capital furnished by the National System and reflected on the Balance Sheet of the Air Lines as Paid-In Common Stock in the amount of $22,600,000. In 1946 the procedure was by way of a 3% Dividend appropriation of Surplus in pursuance of the 1945 amendment to the Air Lines Act of 1937 but because of the present Deficit position of the Air Lines this procedure could not be followed in 1947. Prior to 1946 a 5% Interest allowance was made in accordance with the 1937 Act. The Interest allowance in 1947, therefore, assumes the continuance of Parliamentary approval to the principle of a compensatory return to the National System for capital furnished by it in any form to the Air Lines.

In addition to the foregoing, Interest charges have been made against the Air Lines by the National System at the rate of 3% in respect of an Advance on account of the 1947 Deficit.

Interest charges against the Atlantic Service relate only to Air Lines assets used exclusively by the Atlantic Service. No interest charges, however, were assessed against the service in respect of the DC4-M1 planes.

Depreciation charges on Capital Assets owned and in regular service are made on the following bases:

(a) Lockheed Flying Equipment on estimated "service year" life for air-frames and "flying hour" life for engines, propellers and hubs, and

(b) DC3 Flying Equipment and all Ground Facilities on estimated "service year" life.

In connection with 27 of the 30 DC3 aircraft owned, we would mention that the estimated "service year" life was extended in 1947 from a 3 to a 4 year basis. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

In connection with the DC4's Depreciation bases are as follows:

(*a*) DC4-M1—On tentative monthly estimates pending determination of ultimate ownership and capital valuation of the planes;

(*b*) DC4-M2—No provision made for the 6 unfinished planes delivered up to the year-end pending their placement in regular service, and

(*c*) DC4—Capitalized Spare Parts
—On tentatively estimated "service-year" life.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of Capital Assets.

Consolidated Balance Sheet

Accounts Receivable and Payable of all classifications have been tested by us on the same basis as that set out for the National System.

A physical inventory covering the major portion of Material and Supplies was taken under the direction of the Management late in 1947. The general procedure followed in the taking of this inventory was similar to that outlined in respect of the National System. It should be noted, however, that Material and Supplies refer to General Stores stock as distinguished from Capitalized Spare Parts.

Current Assets show a ratio of approximately 1 to 1 of Current Liabilities. This compares with a Working Capital ratio of 0·8 to 1 in 1946.

The gross amount of the Deferred Charge for Research and Development Expense includes development expenses in connection with aircraft not yet in revenue service and new international services not yet in operation, as well as Personnel Training Costs on DC-4 aircraft incurred in anticipation of these new services. The Balance Sheet figure represents only the residual amount as at the 31st December, 1947, after giving effect to the settlement with the Dominion Government on the winding up of the Canadian Government Trans-Atlantic Air Service as at the 30th April, 1947. This winding up included the taking over by the Air Lines of the Working Capital accounts of the Government service as authorized by the Governor in Council. The consummation of the aforementioned settlement, however, is subject to the final settlement of certain Estimated Accrued Liabilities and the disposal by the Air Lines of the residual Equipment not evaluated or taken into the accounts of the Air Lines as at the year-end. As a net result, further credits to this account are presently anticipated.

The Insurance Fund is composed of investments in Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, however, applies to these securities as is outlined in our comments on National System valuations.

The Insurance Fund increased $610,000 during the year. The 1947 Profit on the overall operations was retained in the Fund and corresponding Reserve. We would make mention of the fact that the Insurance risk covering Passenger Liability and Damage to the Property of Others in respect of twin-engine Equipment is presently carried 100% in the Fund.

Investments in Property and Equipment are carried on the general basis of cost. The capitalization of the North Star M2-Equipment covers 6 delivered planes and progress payments to the manufacturer in respect of an additional 14 planes as at the year-end.

Accrued Depreciation covers the period from the inception of operations in 1937 to 1947.

The Insurance Reserve includes a tentative amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

The Inventory Reserve relates generally to any potential loss on surplus stores of Material and Supplies. The Capitalized Spare Parts are reserved for through the Accrued Depreciation account.

The Reserve for Overhaul—North Star M1 is the contra to the tentative monthly Depreciation charges, through Operating Expenses, pending determination of ultimate ownership and capital valuation of these planes.

Paid-in Capital Stock was increased $16,000,000 in order to finance the Capital Expenditure programme in 1947.

The net Deficit applicable to the Air Lines as at the 1947 year-end covers the Surplus years from 1940 to 1945 less the Deficit years 1946 and 1947. Prior to 1940 the annual Deficits were voted by Parliament in accordance with the Air Lines Act of 1937 which, however, made provision for any possible Deficits up to 31st March, 1942. No provision has been made on the Balance Sheet by way of an Account Receivable from the Dominion Government anticipating a Parliamentary Vote to cover the aforementioned net Deficit of the Air Lines as at the 31st December, 1947.

The Major Contingent Liabilities of the Air Lines relate to undertakings for Capital Expenditures and those for materials required in the ordinary course of business.

In respect of the Pension Plans of the Air Lines we make the following explanatory comments:

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the Company and employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the Air Lines.

The assets of the separate Pension Trust Fund amounting to $2,306,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

The year-end market value of the securities exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, applies also to these securities as is outlined in our comments on National System valuations.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered Pension Trust Funds under that Plan, the accruals for which the Company is liable in respect of transferred employees being paid to the Canadian National Railways.

— — — — — — — —

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange, and

(*b*) Sterling Currency
—at the rate of $4.04 to the £ Sterling.

— — — — — — — —

The test audit of the Air Lines for the year 1947 was similar in scope to that of the National System previously outlined in this Report.

= = = = = = = =

Amounts to the Nearest Thousand Dollars

For purposes of simplified reference by Parliament, the amounts shown throughout this Report in respect of the National System, West Indies Steamships and Air Lines are generally to the nearest Thousand Dollars.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Answers to question by Mr. Jackman.

(*a*) Adjustment of mail pay as agreed with the Post Office Dept. for the period April 1 to December 31, 1947 .... $487,500

(*b*) Adjustment from January 1, 1947 of depreciation charges on DC-3 aircraft from a 3-year life to a 4-year life $435,117

Mr. MATTHEWS: There were one or two matters raised this morning—

Mr. JACKMAN: You drew attention to the fact the T.C.A. changed the basis from three years to four years, I had not noticed that.

Mr. MATTHEWS: On that particular point, Mr. Jackman, as we say in our report, the matter of obsolescence is taken into account by T.C.A., as with other airlines, as from time to time they may determine any service value in the life of any type of plane.

In the case of the DC-3's, the original basis was three years. The reason for that was explained to the committee this morning. Towards the end of 1947, it was seen the DC-3's would not be retired as had originally been planned. Therefore, the proper procedure was to determine the estimated remaining life in the DC-3's and it was based upon four years.

Supporting that view is the American authority referred to this morning that extended the serviceable certification period of the DC-3 from 1951 to 1954. We feel that, having mentioned it to parliament, nothing further need be said about it, other than this; there seems to be a little confliction of thought on the matter of increased replacement cost.

Let me be clear on that. Depreciation must, of necessity, be based upon cost, but you will find there is a commonly accepted basis of reporting by management today, dividing this question up under two headings. In the majority of cases managements are reporting to their stockholders the fact that they should bear in mind that the depreciation charges are based on original cost which may be said to be perhaps half, on an average, of what the replacement cost will be. Some other companies have aproached the situation a little more boldly and, in addition to their depreciation charges, they have made specific appropriations out of their income account, not for depreciation, but as a replacement reserve on the ground that they have been able to increase their sales price for their materials or their services, reflecting the general, over-all, inflationary trend of the dollar.

There is no need to confuse the issue of higher replacement costs with depreciation. It is only that one should bear in mind the fact that depreciation charges are based upon cost and that will not necessarily represent the future cost of the use of that particular facility.

Mr. JACKMAN: May I ask one question? Perhaps this question is more properly addressed to the management. The second paragraph of your report says,

> The air lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the air lines is vested in the Canadian National Railway Company.

In as much as there are quite a variety of companies affiliated with the railway, such as grain elevators and other ancillary companies, which are consolidated

are they not, in the Canadian National Railways account, why should this form of transportation in the air, which is to be permanently handled by the railway company, not be consolidated in the account?

Mr. MATTHEWS: In the matter of grain elevators, there are some grain elevators owned by the railway but then, in 707 other investments, there are also some investments in grain elevator companies which are not consolidated. Coming down to the T.C.A. which is 100 per cent owned, on the basis of the policy of the Canadian National Railways, in the ordinary course of events, it would be a part of the system, but one might argue the same thing in connection with the Canadian Government Merchant Marine. In that case, it is all held, for all it is worth, by the Canadian National Railways.

Right Hon. Mr. HOWE: Is not the complete answer that T.C.A. is governed by a special Act of parliament and you cannot consolidate it?

Mr. MATTHEWS: Right.

Right Hon. Mr. HOWE: For instance, the government appoints three directors to the board and the government would have to change the Act.

Mr. JACKMAN: I was wondering whether there was any particular reason why we should not do it. Why do you wish to have it separate?

Mr. MATTHEWS: I think it is due to what the minister says, the T.C.A. operates under a specific Act of parliament.

Mr. JACKMAN: I just wanted to find out what the reasons of the railways were for not having it incorporated. We can do anything in parliament if we have the backing of the government. I want to know why. You have a lot of companies which are not particularly in the railway business but which are merged in the accounts.

Mr. MATTHEWS: You will find, in some commercial enterprises that for particular reasons, all controlled companies are not always consolidated; but in those cases where they are not, it is very clearly set out in the accounts that such controlled companies are not consolidated. This was done in the case of Trans-Canada Air Lines.

Mr. JACKMAN: I realize what the facts are, but I am trying to find out what the reasons are. Why do you want to have it outside rather than inside? Does the Canadian Pacific consolidate its air line account?

Mr. MATTHEWS: Oh, no.

Right Hon. Mr. HOWE: It is a competing form of transport.

Mr. JACKMAN: Do the Canadian National Railways own any bus lines?

Right Hon. Mr. HOWE: Not competing with the railway; they use bus lines to supplement the railway.

Mr. MATTHEWS: I do not think there is any rule, Mr. Jackman.

Mr. JACKMAN: No, I just wanted to know if you had any particular rule for keeping it in or keeping it out?

Mr. MATTHEWS: I think the fact T.C.A. is covered by a separate act is a very good reason for it.

Mr. JACKMAN: Yes, but acts of parliament—we change them here, you know.

Mr. MATTHEWS: Quite right. When I say the Canadian Pacific Air Lines are not taken into the accounts of the railway, I mean as a component part of the railway. The results are brought in, but it is not considered a component part. It is different from T.C.A. in that respect.

The CHAIRMAN: Are there any other questions on page 18?

Mr. HAZEN: Mr. Chairman, when we went over the Canadian National Railways System, Mr. Matthews started by reading his report. Then, I believe he went over it section by section and explained it to us. Now, we seem to be adopting a different procedure.

The CHAIRMAN: It was agreed by the committee Mr. Matthews would not read the report.

Mr. MATTHEWS: I shall be glad to answer any questions, gentlemen, which you have.

Mr. JACKMAN: I suppose there is nothing to which to draw attention in regard to the capitalized spare parts? You are quite satisfied with the treatment of that account?

Mr. MATTHEWS: Yes.

Mr. HAZEN: In your report on the Canadian National Railways you stated that the annual report shall call attention to any matters which, in the opinion of the auditors, require consideration or remedial action; that is provided by the Canadian National-Canadian Pacific Act, 1936, section 13. Now, are there any particular matters in your report of the Trans-Canada Air Lines to which you wish to call the attention of the committee or are there any recommendations which you think should be made and which the government should consider?

Mr. MATTHEWS: I think this question of the change in the depreciation of the DC3 was one of the things we felt should be understood.

Now, in connection with the interest charged against the air lines; in 1947, that averaged 1·53. It has already been pointed out to the committee that the interest rate as from the 1st of May will be, I think it is 3 per cent, Mr. Howe?

Right Hon. Mr. HOWE: Three per cent, I think, yes.

Mr. MATTHEWS: But this 1·53 was the situation during 1947. However, looking forward to 1948 it should be borne in mind there will be a higher interest charged.

Mr. HAZEN: Is that referred to in your report?

Mr. MATTHEWS: Yes, on page 19, the fourth paragraph.

Mr. JACKMAN: Mr. Matthews, while some justification can be put forward for this change in depreciation and the change in interest rate, they would be a bit unusual, would they not, in a private company? In a poor year, would a private company change accounts as has been done here?

Right Hon. Mr. HOWE: It is a construction period, you see. The plane we were building was non-productive. The railway agreed to lend money to the Trans-Canada Air Lines at the rate they were receiving it from the government for similar purposes; that is a temporary affair. It is not customary to fund a thing until it is productive.

Mr. MATTHEWS: It is short-term money, Mr. Jackman, and that has to be borne in mind. As you well know, short-term rates have averaged anywhere from $\frac{3}{4}$ of 1 per cent up to 1 per cent.

Mr. JACKMAN: You need good credit to get that.

Mr. MATTHEWS: That is true but, factually, 1 per cent on short-term money in 1947 was not out of line, provided it was short-term.

Mr. JACKMAN: But the whole capital investment, most of it, was long-term money and it only averaged a composite rate of 1·53 per cent.

Mr. MATTHEWS: For the year, Mr. Jackman, that is quite true. It was for that reason we mentioned it to you, so you would understand that in 1948 the interest charges definitely will be higher.

Mr. JACKMAN: The only point I am making is, it does not make very much difference to the people of Canada or to the treasury, in the long run, whether we charge the company that higher rate or a lesser rate; but in an endeavour to approximate how the company has fared during any particular period, you are faced with these changes being made which you do not find in commercial companies because it does make a difference to them. They have not got the government behind them. I think it is much better, the freer we can be. It does not make any difference whether it comes out of this pocket or that pocket, but the whole thing should be treated as if the government were at arm's length.

Right Hon. Mr. HOWE: It does not come out of anybody's pocket. The government has loaned money to the railway at exactly what the government pays the banks for that kind of money, plus $\frac{1}{8}$th, I think. Then, the Canadian National Railways loaned money to the air lines for this particular purpose of financing a construction contract at the same rate the railways received it from the government. Nobody is out of pocket at all.

Mr. JACKMAN: 1·53 per cent on the total investment, which includes long-term capital invested, is a low rate. It is well known that the Minister of Reconstruction is a good bargainer for the government and I am quite amazed he consented to the 3 per cent rate for 1948.

Mr. MATTHEWS: The fact is, so far as the balance carried forward from 1946 is concerned, that was maintained at the rate then established, 3 per cent. The 1·53 per cent results from the borrowing of certain short-term money during 1947 at 1 per cent.

Again I say that 1 per cent for short-term money during 1947 was not unusual if you had the credit. Now, I grant you the T.C.A. has the government behind it.

Right Hon. Mr. HOWE: Obviously, the Trans-Canada Air Lines has a capital of $25,000,000 against which to draw when it is needed. They could finance short-term money. Every builder finances short-term money in this manner. You are talking about things that do not happen when you say you always take long-term money and treat it the same as short-term money. Did you ever see a bond issue which did not have short-term bonds to start with at a low rate of interest?

Mr. JACKMAN: I think most of the bonds I have seen have had the pre-construction costs capitalized on that basis, so there is nothing there except interest accruing during the period. If I understand this correctly, only 1·53 was charged on the whole capital investment?

Mr. MATTHEWS: For the year 1947.

Mr. JACKMAN: Then, for the year 1948, the minister is quite agreeable to having the company pay 3 per cent to the government on the very same money?

Right Hon. Mr. HOWE: For the year 1947, the fixed capital will pay 3 per cent interest. On the construction, the company paid the rate that the government pays the bank for that kind of money.

Mr. JACKMAN: There, you have an average rate of 1·53 per cent.

Right Hon. Mr. HOWE: I know you have, but the government borrowed money at ·53 per cent.

Mr. JACKMAN: The difference is, in attempting to compare it with an ordinary company, you have the government dealing not at arm's length with it. How much was the permanent capital of the company in 1947?

Mr. MATTHEWS: Pretty close to $6,000,000.

Mr. JACKMAN: So that the rest of the capital was paid up and that is how you got a composite rate of 1·53?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: It does not make any difference to the treasury in Ottawa, but it makes it difficult for us to analyse the statement.

Mr. MATTHEWS: Of course, having sat in conferences with the deputy minister of finance, I find it difficult to remember when he has made any particular concessions on interest when he looked at the cost of the money he had to find. He is rather adamant on that, as one may see, from the rates of interest which have been charged on government loans from time to time, for instance, to the Canadian National (West Indies) Steamships.

Right Hon. Mr. HOWE: All the produce money in the concern pays the 3 per cent. These things, the building and the factory, are not produce equipment. What we would ordinarly do is: we would go out and buy them off the shelf and pay the full amount and have them in service the day you got delivery.

Mr. JACKMAN: But the minister cannot have it both ways, have them when they are finished and at the same time have no cost to his money.

Right Hon. Mr. HOWE: The way the banks give it is fair enough.

Mr. JACKMAN: But I would like to see the thing treated not so close to the treasury.

Right Hon. Mr. HOWE: What objection do you have to the T.C.A. getting a good deal? Is there any objection to that?

Mr. JACKMAN: It is not on the same basis as other companies. If you had a loss last year, it should be a typical commercial loss or a commercial profit.

Mr. MATTHEWS: You can find plenty of instances of that in the New York money market in 1947 where companies have gone out and, for a short period of time, have borrowed short-term money at short-term rates. And then you will see them coming up, a bit later, and floating long-term issues which show their interest rates running from 3 per cent plus $2\frac{3}{4}$ per cent and 3 per cent. You will find any number of instances of that kind in the New York money market in 1947 where companies have borrowed money on the short-term market at anywhere from $1\frac{3}{4}$ per cent to $1\frac{1}{4}$ per cent.

Now, in respect to the interest on the $1,000.000 advanced by the Canadian National to the air lines, that was charged at 3 per cent because that money was not furnished by the government but came out of the fund of the Canadian National against which they would have an interest rate equivalent to 3 per cent.

Mr. JACKMAN: How much is that advance?

Mr. MATTHEWS: $1,000,000.

Mr. JACKMAN: Doesn't the minister want to see the air lines get the best it can? So why not give it money out of the treasury?

Right Hon. Mr. HOWE: That is active money, not money which you pay during the construction period. Is it not always the custom of the prudent builder to go and get some short-term cheap money during the building period?

Mr. MATTHEWS: In respect to the Atlantic service, the situation is somewhat different there. Interest charges there are made against the Atlantic service only for assets used exclusively by the Atlantic service, that is, assets of the air lines. And as we point out, no interest charges were assessed against the service in respect to the DC-4-M1 planes that were operated on a temporary basis pending final determination of their ownership and valuation.

And in respect to the depreciation on the DC-4-M1 planes, as we point out, they were based on monthly estimates and the amounts were $8,000 a month for the latter part of 1947, again pending the determination of the ultimate ownership and capital valuation of the planes. As I recall it, Mr. Howe, there is still some question as to where the ultimate ownership of these planes will rest.

Right Hon. Mr. Howe: No, there is no question about the planes. They are owned by the Royal Canadian Air Force; they were surplus to their requirements, and we borrowed them for a period and fitted them out for transport work as interim planes; and we are under an agreement with the Royal Canadian Air Force to return them and put them in the condition that they would have been in delivered new. And a fund has been built up on the basis of $8,000 a month of use to recondition the planes and turn them back to the air force specifications. There is no doubt about the ownership; they are owned by the Royal Canadian Air Force and there is no doubt about their destination. The planes will go to the Royal Canadian Air Force.

Mr. Jackman: Which paragraph is this?

Right Hon. Mr. Howe: The bottom of page 19, depreciation basis.

Mr. Matthews: Yes. The amount set up for the overhaul is $296,500.

Right Hon. Mr. Howe: Which we think is a very liberal estimate of the cost.

Mr. Lockhart: On page 19, with respect to the reference to fields, without going into specific instances, how are the rental arrangements arrived at; and have there been any complaints or cases where they felt that the arrangements were not satisfactory? Perhaps Mr. Howe could answer that.

Right Hon. Mr. Howe: There is always argument between the Department of Transport and the T.C.A. regarding landing fees, hangars, and rental for buildings. The department is the boss and it charges what the service is worth and the air lines have to pay it.

Mr. Lockhart: Were there any upward assessments made recently?

Right Hon. Mr. Howe: Yes.

Mr. Lockhart: That is going on continually, because there are those pending.

Right Hon. Mr. Howe: No. Our basis has been fixed. The landing charges were increased because it was felt that they were not getting a proper return from the air lines for the use of the fields; but it has been fixed now as to rentals.

Mr. Lockhart: In order to eliminate dissension in the future?

Right Hon. Mr. Howe: I think so; it is pretty well settled.

Mr. Nicholson: On page 20, in reference to the insurance fund increase, it is $10,000 during the year; and I wonder if Mr. Matthews would comment on the type of risk carried by the fund and also the type of risk carried by the outside underwiters?

Mr. Matthews: I have not got the division between the two handy. Oh, yes, I have. With the outside underwriters, building and contents, including aircraft, against the risks of fire, lightning, explosion, cyclone, tornado and wind storm.

Aircraft, while on the ground with engines not running, on premises owned, leased or used by the assured, against the risks of fire, lightning and explosion only.

Aircraft, four-engined only, against all risks of physical loss or damage to aircraft, (excluding any amount recoverable under any other policy or policies of insurance) and liabilities with respect to passenger and third parties for personal injury and property damage resulting from their operation to a limit of $5,000,000 in excess of $750,000 each and every accident.

There is also included motor vehicles, owned by employees and leased or hired; fidelity bonds, burglary, and the rest is carried.

Mr. JACKMAN: The excess over $750,000 is carried outside?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: And you carry the risk of damage to your own property?

Mr. MATTHEWS: Everything other than that is carried.

Mr. NICHOLSON: The rates which the passengers pay for insurance have come down in recent years. Is payment made to Lloyds for that type of insurance?

Mr. MATTHEWS: I cannot just answer you that question.

Mr. MCGREGOR: That is a policy between the traveller and the insurance company; the air line simply acts as an agent in order to facilitate the sale of that particular policy, and it has nothing to do with the insurance fund.

Mr. NICHOLSON: The insurance company is able to write that sort of insurance for $1 without any bonus from the air line company?

Mr. MCGREGOR: Yes.

Mr. JACKMAN: You pay the bonus.

Right Hon. Mr. HOWE: The plane and the passengers in the plane are insured by the air line company quite independently to them and anything you buy that way is in addition to what you would recover from the air line.

Mr. NICHOLSON: What sort of compensation would the air line company make?

Mr. MCGREGOR: That is a matter of negotiation in the case of domestic service; and with respect to international service, it comes under what is known as the Warsaw Convention, and it amounts to about $9,000 per passenger.

Mr. NICHOLSON: What is the limit to the domestic?

Mr. MCGREGOR: There is no limit.

Mr. HAZEN: Does the passenger have to establish negligence on the part of the T.C.A. in order to obtain any indemnity?

Mr. JACKMAN: Have you any way of measuring the adequacy of this fund or determining how you would like to see it eventually? Is there some relationship between it and the number of passengers you carry?

Mr. MCGREGOR: I think it would be a matter of experience. If the earnings of the fund proved to be adequate as against the number of claims over a number of years, then I would think the fund had reached a point at which it could be kept level.

Mr. NICHOLSON: Have you the figures available for the previous year?

Mr. MATTHEWS: Yes, I think I have. In the previous year it was approximately $400,000.

Mr. NICHOLSON: And what about the year before that?

Mr. MATTHEWS: I have not got it for the year before that.

Right Hon. Mr. HOWE: What is the total fund now?

Mr. MATTHEWS: $2,124,730, and that would include reserve for unadjusted losses, estimated.

Mr. NICHOLSON: I take it that it is the opinion of the auditors that this fund is adequate as it is?

Mr. MATTHEWS: Yes, when we look back over the fact that this fund has been developed from scratch and the fact that in no year has it failed to grow substantially, and that it is now at a level of over $2,000,000, I think that pretty well speaks for itself.

Mr. JACKMAN: Do any of the privately owned lines in the United States carry their own insurance?

Mr. MATTHEWS: Some of them do, I think.

Right Hon. Mr. HOWE: I am not sure; some of them may. You see, it is much like your automobile insurance where everything over $25 loss is covered. We are insured for everything over $750,000 loss; and some day we may be strong enough to insure the whole thing, but we do not think it wise at the moment.

Mr. NICHOLSON: How long have you had this $750,000?

Right Hon. Mr. HOWE: When we built our fund, we thought that was a safe figure. The cost of the other insurance we buy is much lower if you take the first loss of $750,000. But if the fund gets stronger, we might raise that to a million and thereby get approximately lower rates. In the meantime, we have a fund big enough to stand any action out of the fund and we think it is better business to insure with outside companies.

Mr. NICHOLSON: If the North Star is in service, you might have a pretty large loss.

Right Hon. Mr. HOWE: Yes.

Mr. JACKMAN: The North Star carries how many passengers?

Right Hon. Mr. HOWE: Forty.

Mr. JACKMAN: And the $750,000 is against one accident, not against losses for the year?

Right Hon. Mr. HOWE: Yes, one accident.

Mr. LOCKHART: Are we dealing with any matter or just on a certain page?

The ACTING CHAIRMAN: Any matter.

Mr. LOCKHART: Perhaps Mr. Howe would answer this question which is in connection with pensions of certain employees who were transferred from their former service into the T.C.A. Those employees are reluctant to remain under the old 1935 plan. I believe I am correct in saying that. Has there been any means of adjustment of pension matters with respect to such men?

Right Hon. Mr. HOWE: I do not understand what plan there would be because the T.C.A. did not start until 1938.

Mr. LOCKHART: I know, but there were men transferred to T.C.A. and their pensions would have remained under the old plan.

Right Hon. Mr. HOWE: Oh, yes.

Mr. LOCKHART: I see that a reference is made to it in the last paragraph. Has there been any difficulty with respect to their pension?

Right Hon. Mr. HOWE: I have never heard of any. Perhaps Mr. English would know more about that.

Mr. ENGLISH: No; no cases as yet of anybody being pensioned.

Mr. LOCKHART: I have heard at least one criticism.

Mr. ENGLISH: I think there are one or two cases, one or two men who would have liked to change their election but that is too late.

Mr. LOCKHART: There is no provision made for them to re-elect?

Mr. ENGLISH: No, no.

The ACTING CHAIRMAN: Have you some questions, Mr. Hazen?

Mr. HAZEN: No.

Mr. JACKMAN: Is there anything to be drawn, Mr. Matthews, from the paragraph on page 21 at the top, which reads:

> No provision has been made on the balance sheet by way of an account receivable from the dominion government anticipating a parliamentary vote to cover the aforementioned net deficit of the air lines as at the 31st December, 1947.

You merely call it to our attention?

Mr. MATTHEWS: Yes. We did not know what the intention was. It would make a difference, obviously, to the current asset position of the air lines if they were to draw that down. As in the railways, the deficits are wiped out; and any balance due goes back into current assets. In the case of the T.C.A. we simply wanted to make it clear that it was not done.

Mr. NICHOLSON: I move the adoption of the report.

Mr. WARREN: I second the motion.

The ACTING CHAIRMAN: It has been moved and seconded that this report be adopted. All those in favour?

Carried.

Mr. JACKMAN: What do the air lines expect by way of a budget for next year, particularly on P. and L. account?

Mr. MCGREGOR: The position of the air line has been, so far as P. and L. account is concerned, that there were so many features that could not be definitely determined, particularly in connection with the delivery of new types of aircraft, we felt that budgeting, with that extreme unknown in the picture, including maintenance cost involved with the new type, which could only be determined by experience, that we would simply be drawing a picture which might or might not bear any relation to what would take place.

But now that budget arrangements are being undertaken this year, we can say that after 1948 the air line will have a budget.

Mr. JACKMAN: I take it that you think you will have all these North Stars in operation at the end of the year?

Mr. MCGREGOR: I think we will have them by the end of next month.

Right Hon. Mr. HOWE: Thank you very much, Mr. Chairman; and I also thank the members of the committee. I trust we will have quite a different story for you next year.

The committee adjourned.

SESSION 1947-48

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS
and
THIRD REPORT TO THE HOUSE

No. 5

TUESDAY, JUNE 22, 1948

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

TUESDAY, June 22, 1948.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, held an executive session at 10 o'clock this day. Mr. S. M. Clark, chairman, presided.

Members present: Messrs. Clark, Emmerson, Hazen, Hlynka, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Warren.

The chairman read correspondence exchanged between Mr. A. C. Vaughan, chairman of the Board of Directors, C.N.R., and Mr. Hatfield, M.P., the clerk and Mr. D. M. McCallum of Montreal.

Ordered,—That these letters be printed as an appendix to this day's minutes of proceedings.

The Committee proceeded with and concluded its consideration of the Committee's Report to the House.

With respect to the reference in the report to the T.C.A. Atlantic Services' surplus of $136,303.00, Mr. Hazen suggested that a word of explanation be added thereto.

After discussion, Mr. Hazen quoted, from the C.N and C.P. Railways Act as amended, 1936, the duties of the Directors relating to the loading of export freight through Canadian seaports.

On motion of Mr. McLure, seconded by Mr. Warren, the report was adopted.

Ordered,—That the chairman present the report to the House.

At 10.30, the Committee adjourned *sine die*.

ANTONIO PLOUFFE,
Clerk of the Committee.

15952

APPENDIX

CANADIAN NATIONAL RAILWAYS

DEPARTMENT OF RESEARCH AND DEVELOPMENT

MONTREAL, Que. May 11, 1948.

A. PLOUFFE, Esq.,
Committee Clerk,
Room 431—House of Commons,
Ottawa, Ont.

Dear Mr. PLOUFFE:

I am enclosing herewith for your file on the Sessional Committee on Railways and Shipping 1948, copy of a letter which Mr. Vaughan has written to Mr. Hatfield under date of May 6 in reference to the Saint John call of the vessels of the Canadian National (West Indies) Steamships.

With kindest personal regards, I remain,
Yours truly,

M. D. McCALLUM.

CANADIAN NATIONAL RAILWAYS

(*Copy*)

MONTREAL, 6th May, 1948.

Dear Mr. HATFIELD:

In the course of the meetings of the Sessional Committee on Railways and Shipping last month, you made references to the Saint John call of the vessels of the Canadian National (West Indies) Steamships and, in a general way, I endeavoured to explain our position.

I think you were under the impression that our vessels, during the course of their call at Saint John, do not load outward cargo at that port. This condition did exist during the latter part of the war, but for the past twelve months or so every ship that called at Saint John, northbound, loaded outward cargo before proceeding to Halifax except two vessels in 1947, and one of these, after discharging at Saint John, was sailed to Montreal to load. Since the "Lady Rodney" and the "Lady Nelson" have been restored to service, loading dates at Saint John have been advertised well in advance so that shippers local to that port have every opportunity to avail themselves of this service.

I think too that you had in mind potatoes and perishable shipments particularly. There is a difficulty in the handling of these commodities on vessels which in the wintertime have to proceed to Halifax, as our Steamship people tell me such commodities would most likely suffer damage in freezing weather. Assuming that loading could be effected at Saint John without damage, the re-opening of the hatches at Halifax for the heavy and continuous loading at that point would, in every probability, result in damage at the latter port, and altogether our Steamship people do not feel that the use of Saint John for perishable commodities consigned to the West Indies is practical under present conditions when there has to be a stop-over at Halifax.

You mention that it cost shippers 8 cents a 100 more to ship goods to Halifax than to Saint John, and I presume you were referring to potatoes. The information which I have received from our Traffic Department indicates that from representative points in the Saint John Valley the spread does not reach these proportions. Including the 21 per cent increase recently authorized the comparison is as follows:

From	To Saint John	To Halifax	Difference in favour of Saint John
Edmundston	22c.	24c.	2c.
Grand Falls	19c.	22c.	3c.
Woodstock	16c.	21c.	5c.

These are export rates and include top wharfage charges as well as the cost of unloading from cars if the potatoes are in packages.

If I can give you any further information I shall be only too happy to do so.

Yours very truly,

(Sgd.) R. C. VAUGHAN.

H. H. Hatfield, Esq., M.P.,
House of Commons,
Ottawa, Ontario.

Ottawa, May 15, 1948.

Dear Mr. McCallum,

I acknowledge with thanks your letter of May 11 enclosing a copy of a letter from Mr. R. C. Vaughan to Mr. Hatfield under date of May 6 supplying information requested by the Committee.

Yours truly,

(Antonio Plouffe)
Clerk of the Committee on Railways,
Canals and Telegraph Lines.

M. D. McCallum, Esq.,
Canadian National Railways,
McGill Street,
Montreal, Quebec.

REPORT TO HOUSE

Friday, June 25, 1948,

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee had referred to it the following matters, namely:

(*a*) Annual Report of the Canadian National Railways for the year ended December 31, 1947.
(*b*) Annual Report of the Cannadian National (West Indies) Steamships, Limited, for the year ended December 31, 1947.
(*c*) Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1947.
(*d*) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1947.
(*e*) Report to Parliament of the firm of George A. Touche and Company, auditors, for the year ended December 31, 1947.
(*f*) Financial Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the year 1948.

Your Committee held nine meetings in the course of which the said Reports were severally examined and unanimously adopted.

The report of the Railway System disclosed a net income deficit of $15,885,194.28. Although gross revenues were only a fraction below their wartime peak the continually increasing costs of labour and material prevented the Railway from earning its full interest charges. Net income available for the payment of interest was $27·9 millions. The interest on bonds held by the public amounted to $23·8 millions leaving $4·1 millions available for payment of Government interest which amounted to $20·0 millions. The financial budget of the Railway System for the calendar year 1948 as submitted to the Committee forecast an income deficit of $23·4 millions but as was brought out in the evidence, changes in freight rates authorized since the budget was prepared, less additional labour and material costs, made a revision of the budget desirable, the net income forecast as revised being $6,287,000. This revised figure however, does not make any allowance for any wage increases in Canada which may be granted as a result of applications which are now before boards of conciliation. The budget forecasts net requirements on capital account of $65,882,200 including $59 millions for new equipment. The budget also includes $20 millions for additional working capital. The budget was approved.

The Report of the West Indies Steamships disclosed a net income surplus of $522,677. For the year 1948 the budget forecasts a net income surplus of $590,000, also that the net requirements on capital account are $30,000. The capital budget will be financed from the Vessel Replacement Fund of the Company. The budget was approved.

The report of Trans-Canada Air Lines disclosed a deficit of $1,761,042 for the Domestic Services and a surplus of $136,303 for the Atlantic Services.

In the case of the latter, it should be pointed out that these operations only covered a period of 8 months, that is, from May 1, 1947, to December 31, 1947.

The work of your Committee was facilitated by the information and explanations furnished by Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways; and Mr. G. R. McGregor, the new President of Trans-Canada Air Lines; and of their officers who gave evidence, and your Committee desires to express its appreciation therefor.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.